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In the Supreme Court of the United States

OCTOBER TERM, 1971

No.

UNITED STATES OF AMERICA, APPELLANT

v.

GLAXO GROUP LIMITED, AND IMPERIAL CHEMICAL INDUSTRIES, LIMITED

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

JURISDICTIONAL STATEMENT

OPINIONS BELOW

The opinions of the district court accompanying the orders dated April 30, 1968 (App. A, *infra*, p. 20), November 20, 1969 (App. C, *infra*, pp. 58-59), and April 30, 1970 (App. D, *infra*, p. 60), and the court's opinion accompanying the final judgment dated June 17, 1971 (App. E, *infra*, pp. 61-69), are not officially reported.[1] The court's opinion ac-

[1] The court's opinions with the orders of November 20, 1969, and April 30, 1970, and the opinion with the final judgment of June 17, 1971, are unofficially reported at 1970 Trade Cases ¶ 73,000, 1970 Trade Cases ¶ 73,189, and 1971 Trade Cases ¶ 73,614.

companying the partial judgment dated June 4, 1969 (App. B, *infra*, pp. 21-57), is reported at 302 F. Supp. 1.

JURISDICTION

The judgment of the district court became final on August 12, 1971, and the notice of appeal (App. I, *infra*, p. 77) was filed on September 21, 1971.[2] On September 14, 1971, the Chief Justice extended the time for docketing the case to and including October 15, 1971, and on October 8, 1971, granted a further extension to and including November 14, 1971. The jurisdiction of this Court is conferred by Section 2 of the Expediting Act of February 11, 1903, 32 Stat. 823, as amended, 15 U.S.C. 29. *United States* v. *United States Gypsum Co.*, 333 U.S. 364; *United States* v. *Singer Mfg. Co.*, 374 U.S. 174.

QUESTIONS PRESENTED

1. Whether in a government antitrust proceeding the United States has standing to challenge the validity of patents involved in illegal restraints of trade, where the defendants do not rely on the patents to justify their conduct.

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[2] The district court entered partial judgments on June 4, 1969, November 20, 1969, and April 30, 1970, and a "Final Judgment" (App. F, *infra*, pp. 70-74) on June 17, 1971. The court's "Declaration" clarifying the final judgment (App. G, *infra*, p. 75) was entered on August 12, 1971. A notice of appeal from the court's judgment of June 17, 1971 (App. H, *infra*, p. 76), was filed on August 17, 1971.

2. Whether upon finding in a government antitrust suit that the defendants illegally restrained trade by prohibiting the bulk sale of a patented drug by their licensee-customers, the district court should have required the defendants to sell the drug on reasonable and nondiscriminatory terms and prices to all bona fide applicants and to license at reasonable royalties the patents involved.

STATUTES INVOLVED

Section 1 of the Sherman Act, 26 Stat. 209, as amended, 15 U.S.C. 1, provides in pertinent part:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal * * *.

Section 4 of the Sherman Act, 26 Stat. 209, as amended, 15 U.S.C. 4, provides in pertinent part:

> The several district courts of the United States are invested with jurisdiction to prevent and restrain violations of [this Act] * * *.

STATEMENT

1. The Restraints of Trade and Patents Involved

Glaxo Group Limited ("Glaxo") and Imperial Chemical Industries, Limited ("ICI") are British drug companies engaged in the manufacture and sale of the antibiotic drug product "griseofulvin." Glaxo and ICI own a number of patents relating to the

manufacture or use of griseofulvin.[3] (App. B, *infra*, pp. 25-26.)

About 1957, Glaxo and ICI began negotiations which in 1960 culminated in the execution of an agreement to pool their various patents relating to griseofulvin. Under the 1960 agreement, ICI agreed to prohibit its licensees and customers from selling griseofulvin in bulk form, and to require that they sell it only in dosage form.[4] ICI then entered into an exclusive distributorship-patent license agreement with American Home Products Corporation ("AMHO"), and Glaxo entered into similar agreements with Schering Corporation ("Schering") and Johnson and Johnson, Inc. ("J&J"). These contracts authorized the licensee to make, use, and sell griseofulvin under any of the combined patents and to secure bulk supplies of griseofulvin from Glaxo or ICI, but prohibited the licensee from selling the drug in bulk (App. B, *infra*, pp. 26-27; App. C, *infra*, pp. 58-59.)

In practice, the licensees have purchased bulk supplies of griseofulvin from Glaxo and ICI and have not manufactured it themselves. Schering and J&J, Glaxo's licensees, bought bulk supplies of griseofulvin from Glaxo, added inert ingredients and then pre-

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[3] Griseofulvin has certain unique characteristics and uses, and for some purposes there is no substitute for it (App. B, *infra*, p. 26).

[4] The product is manufactured in bulk form, mixed with inert ingredients to dilute it to the desired strength, and manufactured into "dosage form"—tablets or capsules. The drug is then ready to be administered to human or animal patients. (App. B, *infra*, p. 26.)

pared the mixture into dosage form (tablets or capsules). AMHO, ICI's licensee, did the same and at times also performed an additional manufacturing process under one of Glaxo's patents before converting the mixture into dosage form. (Glaxo Ans. to Interrogatory 66; ICI Ans. to Interrogatories 66 and 70.)

Griseofulvin itself is unpatented and unpatentable, and has long been used to treat fungus diseases of agricultural plants. ICI discovered that this drug could also cure certain external fungus diseases of humans and animals when administered internally. It sought and obtained a patent[5] (the one involved in this litigation) based on two types of claims—(1) a method of curing humans or animals of external fungus diseases by administering internally "an effective amount" of griseofulvin; and (2) a capsule, tablet, or pill containing "an effective amount" of griseofulvin. The first are method, or use, claims while the second are product claims.

The principal Glaxo patent involved here[6] covers an improved (finely ground up, or "microsize") form of griseofulvin.

2. The Proceedings in the District Court

On March 4, 1968, the government filed a complaint charging Glaxo and ICI with having violated Section 1 of the Sherman Act.[7] The complaint al-

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[5] U.S. Pat. No. 2,900,304, issued August 18, 1959.

[6] U.S. Pat. No. 3,330,727, issued July 11, 1967.

[7] Since neither Glaxo nor ICI (both of which are British corporations) transacted business in the United States, they

leged that the defendants had combined their patents and licensed them in an unreasonably restrictive manner by prohibiting licensees from selling griseofulvin in bulk form. The case was decided without a trial, on various motions concerning the merits and the relief; the facts were developed in accompanying affidavits, exhibits and interrogatories. The most significant of these motions are described below.

A. *The opinion of June 4, 1969* (App. B, *infra*, pp. 21-57).

The court categorized the various motions filed by the parties and decided in the June 4, 1969, opinion as the restraint-on-alienation package (App. B, *infra*, pp. 25-42), the jurisdiction-and-standing package (*id.* at pp. 42-50), the motion-to-amend-the-complaint package (*id.* at pp. 50-53), and the discovery package (*id.* at pp. 53-57).

On the government's motion, the court held that the ICI-AMHO contract provision barring AMHO from selling in bulk form griseofulvin that it bought from ICI was *per se* illegal under the Sherman Act. The government also sought to show that the ICI griseofulvin patent was invalid, and the court dealt with this matter in the jurisdiction-and-standing package.

The government contended that the "method" claims of the ICI patent did not disclose how to practice the

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were served with process under the long-arm provision of the Patent Code, 35 U.S.C. 293. The district court sustained the validity of such service twice; an appeal from the first order (App. A, *infra*, p. 20) was dismissed by the court of appeals (unreported memorandum opinion of June 25, 1969), and no appeal was taken from the second order (1970 Trade Cases ¶ 73,000).

invention as required by Section 112 of the Patent Code.[8] Specifically, it argued that the patent nowhere discloses the particular fungus diseases which could be cured by administering "effective amounts" of griseofulvin, or what is an "effective amount" of the drug. The government also argued that ICI's product claims were invalid because they claimed a product monopoly (in pill form) over a substance long in the public domain, and because the claims were for pills containing an unspecified and thus indefinite "effective amount."[9]

ICI filed affidavits stating that it would not rely upon its patent in defense of the antitrust allegations. On ICI's motion, the court struck from the complaint the allegations that the patent was invalid, on the ground that the government lacked standing to challenge the validity of the patent where, as here, the patent is not relied on as a defense to the antitrust claims and it is not alleged that the patent was issued as a result of fraud on the Patent Office.

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[8] Section 112 of the Patent Code (35 U.S.C. 112) requires that the patent disclose "a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention."

[9] The government contended that a new use of an old product could be protected, if at all, only by a method, or "use", patent, rather than by a product patent. See *In re Hack*, 245 F. 2d 246, 248 (CCPA); *Sun Chem. Corp.* v. *Brenner*, 267 F. Supp. 617, 618 (D.D.C.), affirmed *per curiam*, 159 U.S.P.Q. 132 (C.A.D.C.); *Joseph Bancroft & Sons Co.* v. *Watson*, 170 F. Supp. 78, 80 (D.D.C.).

In the motion-to-amend-the-complaint package, the court refused to permit the government to amend the complaint to allege, *inter alia*, that a Glaxo patent was invalid. The government asserted that the Glaxo patent claims (for griseofulvin in small-particle size) had been previously known and in public use and therefore were not subject to patent protection (see Sections 102(a) and (b) of the Patent Code, 35 U.S.C. 102(a) and (b)). The court held that the government lacked standing to challenge Glaxo's patent, since, as with the ICI patent, the patent was not raised in defense and no fraud on the Patent Office was alleged.

B. *The opinions of November 20, 1969, and April 30, 1970* (App. C and D, *infra*, pp. 58-59, 60). In its opinion of November 20, 1969, the court held that the Glaxo contract provision prohibiting bulk sales of griseofulvin by its licensees (Schering and J&J) was a *per se* violation of the Sherman Act. The court in its April 30, 1970, opinion concluded that the ICI-Glaxo pooling agreement provision that licensees would not be permitted to resell the drug in bulk form also was a *per se* Sherman Act violation.

C. *The opinion of June 17, 1971* (App. E, *infra*, pp. 61-69). The government sought a decree prohibiting any further bulk sale restrictions, and requiring Glaxo and ICI to grant reasonable licenses of their griseofulvin patents and to sell griseofulvin on reasonable and nondiscriminatory terms. In support of the proposed compulsory sales and licensing provisions, the government submitted evidence that independent companies selling drugs on a generic (rather

than a brand-name) basis would have marketed griseofulvin at lower prices if they had not been denied the drug.

The court held that "the threat of future violations is sufficient to warrant enjoining repetition of the illegal activity" (App. E, *infra*, p. 63), and accordingly prohibited the anti-bulk sale practices found (see App. F, *infra*, pp. 71-72; App. G, *infra*, p. 75). It refused, however, to order compulsory sales and patent licensing. Noting that "the principal function of an antitrust injunction is to prevent future violations," the court concluded that "otherwise legitimate conduct" could be enjoined to achieve this goal only "where that conduct is so inextricably intertwined with the illegal conduct that effective relief cannot be afforded without its elimination or where the legitimate activity would be a cover for pursuing the forbidden activity" (App. E, *infra*, p. 66). The effect of the compulsory sales and licensing provisions sought by the government, it ruled, would be to destroy the exclusive distributorship arrangements between Glaxo and ICI and their United States distributors, even though those arrangements were not unlawful. The court held that since neither condition for barring "otherwise legitimate conduct" was present, "to decree compulsory sales [and licensing] would be inappropriate in the circumstances of this case" (*id.* at p. 68).[10]

[10] The court gave as an additional reason for its refusal to order compulsory licensing that "there has been no showing that either Glaxo or ICI has abused its patent rights and,

THE QUESTIONS ARE SUBSTANTIAL

This appeal presents an important question concerning the government's right to challenge the validity of a patent underlying conduct that is illegal under the federal antitrust statutes. The court below held that the government cannot do so where the patent is not relied on as a defense to the challenged practices and there are no allegations of fraud in connection with its issuance. This holding breaks sharply with the strong public policy of eliminating invalid patent monopolies and conflicts in principle with this Court's decision in *United States* v. *United States Gypsum Co.*, 333 U.S. 364. The court's refusal to order compulsory sales and licensing where it has found that practices based on patents violate the Sherman Act also is at odds with settled principles governing antitrust relief. Both questions warrant plenary review by this Court.

1. A "strong federal policy favor[s] the full and free use of ideas in the public domain." *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 674. In the patent field, this means that "federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent" (*id.* at 668). Thus, this Court has recently emphasized that the monopolistic consequences resulting from a patent are justified only where the patented device "meet[s] the congressionally imposed criteria of patentabil-

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therefore, they are entitled to exercise the limited monopoly rights granted by law to patent holders" (App. E, *infra*, p. 69, footnote omitted).

ity." *Blonder-Tongue Labs., Inc.* v. *University Foundation*, 402 U.S. 313, 343. In recognition of this fact, the courts should "encourage authoritative testing of patent validity" (*id.* at 344).[11]

While *Lear* and *Blonder-Tongue* sanctioned challenges to the validity of a patent by private litigants, the principles stated above are equally applicable where the challenge is instigated by the government during federal antitrust proceedings. In *United States* v. *United States Gypsum Co.*, *supra*, the Court held that the government was entitled during Sherman Act litigation to an opportunity to prove that a patent was invalid, where the defendant-patentee defended its restrictive practices on the ground that they were shielded by the patent. The trial court had held that the government was estopped from attacking the validity of the patent, on the theory that the government challenge in effect would amount to unauthorized review of action by the Patent Office. The Court rejected this theory, stating (333 U.S. at 387, footnotes omitted):

> * * * The United States does not claim that the patents are invalid because they have been employed in violation of the Sherman Act and that a decree should issue canceling the patents; rather the government charges that the defendants have violated the Sherman Act because they granted licenses under patents which in fact

[11] See, also, *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225; *Compco Corp.* v. *Day-Brite Lighting*, 376 U.S. 234; *Kerotest Mfg. Co.* v. *C-O-Two Fire Equipment Co.*, 342 U.S. 180.

> were invalid. If the government were to succeed in showing that the patents were in fact invalid, such a finding would not in itself result in a judgment for cancellation of the patents.
>
> In an antitrust suit instituted by a licensee against his licensor we have repeatedly held that the licensee may attack the validity of the patent under which he was licensed, because of the public interest in free competition, even though the licensee has agreed in his license not to do so. * * * In a suit to vindicate the public interest by enjoining violations of the Sherman Act, the United States should have the same opportunity to show that the asserted shield of patentability does not exist. * * *

2. The court below concluded that since ICI had filed an affidavit stating that it would not rely upon its patent as a defense, *Gypsum* was "inapposite." In its view, "the issue is whether the United States can challenge ICI's patent independent of any antitrust claims" (App. B, *infra*, p. 43). On this question it held, chiefly on the authority of the first and third *Bell Telephone* cases (128 U.S. 315, 167 U.S. 224), that the government "may only sue to cancel a patent when 'fraud or deceit' [on the Patent Office] is alleged" (App. B, *infra*, p. 47).

In *United States* v. *American Bell Telephone Co.*, 128 U.S. 315 ("*Bell I*"), this Court held that the government may sue to cancel a fraudulently-procured patent. It quoted approvingly the discussion in *United States* v. *Stone*, 2 Wall. 525, of the government's right to judicial review of the validity of a patent to government lands (128 U.S. at 365):

> * * * Nor is fraud in the patentee the only ground upon which a bill will be sustained. Patents are sometimes issued unadvisedly or by mistake, where the officer has no authority in law to grant them, or where another party has a higher equity and should have received the patent. In such cases courts of law will pronounce them void. * * *

This broad proposition was confirmed in *United States* v. *American Bell Telephone Co.*, 159 U.S. 548 (*"Bell II"*). There, the Court described *Bell I* as having decided that where government officials in issuing a patent "may have been imposed upon by fraud or deceit, or may have erred as to their power, or made mistakes in the instrument itself, the appropriate remedy shall be by proceedings by the United States against the patentee" (159 U.S. at 555). But the Court in the third *Bell Telephone* case, 167 U.S. 224 (*"Bell III"*), expressed the view that an "error of judgment on the part of the patent officials" was not enough to entitle the government to challenge the validity of a patent, since "[t]hat would be an attempt on the part of the courts in collateral attack to exercise an appellate jurisdiction over the decisions of the Patent Office, although no appellate jurisdiction has been by the statutes conferred" (167 U.S. at 269). The court below read this to mean that the government can sue to set aside a patent only if fraud or deceit is alleged (App. B, *infra*, p. 47).

The restrictive language in *Bell III* was unnecessary to the decision in that case, since the government contended that the patent was invalid solely because it was fraudulently procured and then failed

to prove fraud. We think that at all events that language is inapplicable to cases like this one, where the government sues "to vindicate the public interest by enjoining violations of the Sherman Act" (*Gypsum, supra*, 333 U.S. at 387) and a patent has been used to further the antitrust violations found. In that circumstance, *Gypsum* teaches that *Bell III* is not controlling and that the government has the right to show that the patent is invalid.[12]

The distinction suggested by the court below between *Gypsum* and this case does not support a different result. Since the "public interest in free competition" is thwarted by an invalid patent that has been the instrument by which the patentee has engaged in antitrust violations, the government should have an opportunity to show during ensuing antitrust litigation that the patent is invalid, whether or not the patentee chooses to rely upon it as a defense.

This does not mean, as the court below implies, that the government would have a broad power "to attack collaterally the validity of patents on any

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[12] The restrictive language in *Bell III*, in our view, has been significantly undercut by this Court's more recent decisions emphasizing the importance of the national antitrust policies embodied in the Sherman Act (cf. *Lear, Inc.* v. *Adkins, supra*, 395 U.S. at 663), and the "dominant" public interest in the patent area (*Mercoid Corp.* v. *Mid-Continent Co.*, 320 U.S. 661, 665). The government's role here, moreover, comports with its recognized responsibility and right to protect the public against violations of federal policies and to remove impediments to commerce. Compare *Wyandotte Co.* v. *United States*, 389 U.S. 191, 201; *United States* v. *Republic Steel Corp.*, 362 U.S. 482, 492.

grounds" (App. B, *infra*, p. 47, footnote omitted). The government's challenge to the validity of a patent here is only in the narrow context of an antitrust proceeding where the patentee has unreasonably restrained trade in violation of the antitrust laws through the use of a patent which the government asserts is invalid.[13] In that setting, according to *Gypsum* the government is entitled to an "opportunity to show" that the antitrust defendants "violated the Sherman Act because they granted licenses under patents which in fact were invalid" (333 U.S. at 387).

3. Compulsory licensing and sales at reasonable rates and prices is a well-established remedy where an antitrust violation involves use of a patent and such provisions are required for effective relief. *Besser Mfg. Co.* v. *United States*, 343 U.S. 444, 447. See, also, *International Boxing Club* v. *United States*, 358 U.S. 242, 261-262; *International Salt Co.* v. *United States*, 332 U.S. 392, 398-402. Provisions of this type were fully justified here to open to compe-

[13] The Glaxo and ICI patents were essential to the antitrust violations found here. ICI's patent was the basis for the patent pooling arrangement between Glaxo and ICI, in which ICI agreed to the restraints on bulk sales of griseofulvin that were held to violate the Sherman Act. The patents, through the license agreements, were instrumental in effecting the bulk sales restraints against the American distributors, which also violated the Sherman Act. Moreover, the patents enabled Glaxo and ICI to enforce more effectively the restraints. If an independent drug company obtained supplies of the product in bulk form despite the restrictions against its sale in that form, the Glaxo and ICI patents covered processing it into usable form.

tition the market that had been closed by the defendants' antitrust violations.

Glaxo and ICI, ever since griseofulvin has been marketed in the United States, have implemented restrictions against the sale of griseofulvin in bulk form in violation of the Sherman Act.[14] They consistently have refused to make bulk griseofulvin available to independent drug firms.[15] By restrictive arrangements with foreign licensees, Glaxo and ICI have eliminated other foreign sources of supply.[16] The only domestic sources are the defendants' American distributors. While the latter purchased the drug in bulk form from Glaxo and ICI, their contracts precluded unauthorized sales in bulk form, and they have refused to make any bulk sales.[17] They were aware that their agreements with Glaxo and ICI were essentially identical, and indeed Glaxo's distributors jointly negotiated their licenses and jointly opposed Glaxo's granting any license to

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[14] App. B, C, and D, *infra*, pp. 26-27, 58, 60; GX-4, Wallace Afft. of October 31, 1968; GX-23 and GX-24, Wallace Afft. of June 13, 1969.

[15] Snyder Afft. of June 17, 1970; Dooner Afft. of June 5, 1970; Mazon Afft. on May 27, 1970; Glaxo Ans. to Interrogatory 64.

[16] Glaxo Ans. to Interrogatory 64.

[17] Glaxo's two licensees have refused to make any bulk sales. ICI's licensee has offered to make bulk sales only since this suit was filed and at prices which are so high as to preclude any possibility of effective competition. (Snyder Affts. of June 17, 1970, and December 14, 1970; Dooner Afft. of June 5, 1970; Whitmore Afft. of December 14, 1970; Mazon Afft. of May 27, 1970.)

another drug company.[18] And they control the American market in griseofulvin, to the exclusion of practically all others.[19]

On this record, the non-competitive nature of the griseofulvin market is clear. There can be no doubt that the patents, and the license agreements and bulk sales prohibitions based thereon, are in large measure responsible for the present market condition, by permitting Glaxo and ICI, as well as their licensees, to control the market free of effective competition. To remedy this situation, the relief must "effectively pry open to competition a market that has been closed by defendants' illegal restraints" (*International Salt Co.* v. *United States*, *supra*, 332 U.S. at 401). Barring the illegal practices previously committed is not enough to do this. Effective relief requires that the market be opened to competition, and the compulsory licensing and sales provisions are reasonably designed to accomplish this end.

While the court below recognized that compulsory licensing and selling were available remedies "in appropriate circumstances," it held that they should not be ordered here since the "evidence did not show" that the the market situation resulted from the de-

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[18] GX-3 to GX-9, Bohling Afft. of July 7, 1970.

[19] In 1968, when this suit was filed, the three American licensees had all the market in the drug. At the time of the judgment, Zenith Laboratories accounted for about ½ percent, Owens Laboratories had about 1 percent, and the licensees had the balance. (Snyder Afft. of December 14, 1970; Silverstein Afft. of October 30, 1970; App. A and B, Bland Afft. of November 25, 1970.)

fendants' antitrust violations or that the defendants' licensing and sales practices were "covers" for the unlawful conduct (App. E, *infra*, p. 68). We submit that the evidence described above establishes that the existing monopolistic market is the product of the defendants' conduct, an essential feature of which was the unlawful bulk sales prohibition. Effective relief against the antitrust violations requires the remedies sought by the government.

The standard applied by the district court—that the practices against which relief is sought must be "inextricably intertwined" with the unlawful antitrust conduct (App. E, *infra*, p. 66)—is not the correct one.[20] That standard comes from the dissenting opinion in *International Salt Co.* v. *United States*, 332 U.S. 392, 403-404; it was rejected there, and has not been accepted since.

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[20] The court's standard apparently would require a definitive reconstruction of what the market situation would have been but for the defendants' illegal actions. Not only has it never been required that the government make a precise showing of this sort, but obviously such a showing would ordinarily be impossible to make, as it was here. The important facts, about which there can be no dispute, are that Glaxo and ICI unlawfully restrained trade in the griseofulvin market with the help of their patents, and that now there is essentially no competition in the market. In the circumstances of this case, it is reasonable to infer that the existing market situation results in large part from the defendants' unlawful conduct, which directly involved the patents, and that compulsory licensing and sales are necessary to open the market to competition.

CONCLUSION

This appeal presents important issues in the administration of the patent and the antitrust laws. Probable jurisdiction should be noted.

Respectfully submitted.

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NOVEMBER 1971.

APPENDIX A

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

Civil Action No. 558-68

UNITED STATES OF AMERICA, PLAINTIFF

v.

GLAXO GROUP LIMITED, ET AL., DEFENDANTS

ORDER

The motion of Glaxo Group Limited to quash the service of the summons and complaint upon it having come on to be heard before this Court on April 22, 1968, and counsel having been heard, and after due consideration, it is hereby

ORDERED that the motion of Glaxo Group Limited to quash service of the summons and complaint upon it in this case be, and the same is, hereby denied, and

IT IS FURTHER ORDERED in accordance with 28 U.S.C. § 1292(b) that it is the opinion of the Court that the denial of the motion to quash service of the summons and complaint involves a controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of this litigation.

/s/ Edward M. Curran
Judge

DATED: April 30/68

APPENDIX B

[Caption Omitted; June 4, 1969]

MEMORANDUM OPINION

GASCH, District Judge.

This antitrust suit, brought pursuant to section four of the Sherman Act,[1] by the Department of Justice, seeks declaratory and injunctive relief against two British corporations for alleged violations of section one of the Sherman Act.[2] The Court heard the matter on the several motions of both the plaintiff and defendants and pursuant to this opinion, by order, will: (1) grant the motion of the United States for a partial summary judgment on the restraint on alienation issue, and deny the motion of defendant ICI for a partial summary judgment that the United States has failed to establish a Sherman Act violation or that the case is moot; (2) grant the motion of defendant ICI for a partial judgment under Rule 12(c); (3) deny the motion of the United States for leave to amend the complaint; (4) sustain Glaxo's objection to the ruling of the Pretrial Examiner dated November 25, 1968, and overrule the Government's objections to the rulings of the Pretrial Examiner dated November 6 and 15, 1968.

The following background is noted from the complaint and memoranda. It is not found as fact.

I. BACKGROUND

Defendants Glaxo Group Limited (hereinafter "Glaxo") and Imperial Chemical Industries Limited

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[1] 15 U.S.C. § 4.

[2] 15 U.S.C. § 1.

(hereinafter "ICI") are British corporations[3] which own United States patents.[4]

Bulk form griseofulvin is an antibiotic, antifungal agent which may be cut with inert ingredients and administered orally for the treatment of external fungus infections. The Glaxo and ICI patents purport to relate to this dosage form. Griseofulvin is not the subject of a United States patent in its common, bulk form.

A. *Complaint*

The Government first asserts that a Glaxo-ICI patent interchange[5] is an illegal combination (horizontal) to pool patents and to license them in a manner which unreasonably restrains trade in griseofulvin in violation of section one of the Serman Act. It then alleges that pursuant to this combination, Glaxo entered into license agreements with Johnson and Johnson, Inc. (hereinafter "Johnson") and Schering, Inc. (hereinafter "Schering"), and ICI with American Home Products Corp. (hereinafter "AMHO"), under which Glaxo and ICI agreed to sell bulk griseofulvin to the licensees and the licensees were authorized to make, sell and use griseofulvin in dosage form. Each agreement provided that the licensee would not resell griseofulvin in bulk form to any independent third party without the licensor's express written consent.

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[3] As of June 30, 1966, Glaxo had total assets of approximately $180 million. ICI's net income in 1965 was approximately $140 million. As of December 31, 1966, its total assets were approximately $4.2 billion.

[4] See *infra*, note 8.

[5] Report of the Atty. Gen. Comm. to Study the Antitrust Laws at 242 (1955) [hereinafter "Atty. Gen. Report"].

Additionally, the Government alleges that the ICI patent is invalid under 35 U.S.C. §§ 100, 101 and 112.

The Government asserts that the effects of the alleged combinations and agreements are: "to prevent competition between the defendants and the licensees in the sale of griseofulvin in bulk form; to prevent competition among the licensees in the sale of griseofulvin in bulk form; to guarantee each licensee freedom from competition from others resulting from the sale of bulk form griseofulvin by licensees to such others; to control and restrain the licensees in respect to the manner in which, and the persons through whom, they market griseofulvin; to prevent access by third persons to sources of griseofulvin in bulk form; to prevent third persons from packaging bulk form griseofulvin into dosage form and selling it for use by consumers; to place restrictions on, or to subject to conditions, the resale of griseofulvin which the licensees purchase from defendants; to deprive the public, and particular consumers of drugs, of the benefits of free and open competition in griseofulvin." [4]

B. *Service of Process*

[1] Neither Glaxo nor ICI is alleged to have transacted any business in the United States. Service of process was attempted on both by mailing copies of the complaint to their respective home offices in London, England, pursuant to 35 U.S.C. § 293 and Federal Rule 4(i). Glaxo's motion to quash this service was denied by the Chief Judge of this Court on April 30, 1968; and, accordingly, the matters

[4] Gov't complaint at 6-7.

presently before the Court were heard on the several motions of plaintiff and both defendants.[7]

C. *Motions*

Those motions include: plaintiff's motion for summary judgment against ICI on a restraint on alienation theory; ICI's motion for partial summary judgment on the grounds of mootness and failure to establish a violation of the Sherman Act; ICI's motion for judgment under Rule 12(c); plaintiff's motion for leave to amend the complaint; Glaxo's objection to the ruling of the Pretrial Examiner dated November 25, 1968; plaintiff's objection to the ruling of the Pretrial Examiner of November 6, 1968; and, plaintiff's objection to the Pretrial Examiner's ruling dated November 15, 1968. Plaintiff's motion for a partial summary judgment that ICI's patent is invalid has been postponed by stipulation pending the Court's decision on the above-described motions. For purposes of oral argument, and by the agreement of all parties, these motions were divided into and argued as four "packages."

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[7] The litigants incorrectly assume that this ruling on jurisdiction is a binding "rule of the case" while it is in this Court. It is appropriate for a court to inquire into its jurisdiction and should there be further proceedings directly involving Glaxo in this Court, this Court will need to make such an inquiry. *Compare* North Branch Prods, Inc. v. Fisher, 179 F. Supp. 843, *rev'd on other grounds* 109 U.S. App. D.C. 182, 284 F.2d 611 (1960); *cert. denied* 365 U.S. 827, 81 S.Ct. 713, 5 L.Ed.2d 705 (1961) *with* 35 U.S.C. § 293 and *cf.* Kennedy, Patent and Antitrust Policy: The Search for a Unitary Theory, 35 Geo. Wash. L. Rev. 512, 529-531 n. 117 (1967); and ruling *infra* on ICI's Rule 12(c) motion.

II. Restraint on Alienation Package

The United States has moved for a partial summary judgment declaring the ICI-AMHO bulk sale restriction to be a *per se* violation of the Sherman Act under the *Schwinn* doctrine.[8] ICI has cross moved for a summary judgment that the Government has failed to establish a Sherman Act violation. The following are undisputed facts for purposes of this motion.[9]

A. *Undisputed Primary Facts*

1. Glaxo is a British corporation organized and existing under the laws of Great Britain. Its principal place of business is London, England. Glaxo owns four United States patents.[10] (Complaint, ¶¶ 1, 3; Cross Motion of ICI for Summary Judgment 11/14/68 [hereinafter ICI Cross Motion]).

2. ICI is a British corporation organized and existing under the laws of Great Britain. Its principal place of business is London, England. ICI owns a United States patent.[11] (Complaint, ¶¶ 1, 3; ICI Cross Motion).

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[8] United States v. Arnold Schwinn & Co., 388 U.S. 365, 87 S.Ct. 1856, 18 L.Ed.2d 1249 (1967) [hereinafter "*Schwinn*"].

[9] These are taken from facts offered or acknowledged by the defendant and not objected to by the Government, undisputed documents or affidavits.

[10] No. 2,843,527 issued July 15, 1958, and styled "Production of griseofulvin in low nitrogen level medium;" No. 2,938,835 issued May 31, 1960, and styled "Production of mutants of the Genus Penicillum;" No. 2,986,496 issued May 30, 1961, and styled "Production of antibiotics and antibiotic-containing products;" and No. 3,008,876 issued November 14, 1961, and styled "Compositions containing Griseofulvin."

[11] No. 2,900,304 issued August 18, 1959, and styled "Griseofulvin uses and compositions."

3. Bulk form griseofulvin is an antibiotic compound which may be cut with inert ingredients and administered orally in the form of capsules or tablets to humans or animals for the treatment of external fungus infections. There is no substitute for dosage form griseofulvin in combatting certain infections. The Glaxo and ICI patents purport to relate to this dosage form. Common, bulk form griseofulvin is not the subject of any United States patent. (Complaint, ¶¶ 11, 12; ICI answer to U. S. interrogatory ##1, 36, ICI Cross Motion).

4. On September 12, 1958, ICI and AMHO executed a contract constituting AMHO an exclusive distributor of ICI pharmaceutical products in the United States. (Appendix to ICI Memo, 11/12/68).

5. On April 26, 1960, Glaxo and ICI entered into an agreement which provided *inter alia*:

(a) ICI would purchase supplies of bulk form griseofulvin from Glaxo;

(b) "ICI undertakes not to sell and to use its best endeavours to prevent its Subsidiaries and Associate from selling any griseofulvin in bulk to any Independent Third Party without GLAXO's express consent in writing;"

(c) ICI acquired the right to manufacture bulk form griseofulvin in the United Kingdom under Glaxo's United Kingdom patents;

(d) ICI was entitled to sell bulk form griseofulvin and preparations containing it in the United States;

(e) ICI was authorized to sublicense under Glaxo's United States griseofulvin patents;

(f) Glaxo was authorized to manufacture dosage form griseofulvin in the United Kingdom and to sub-license Johnson and Schering in the

United States to make, use and sell griseofulvin preparations. (Government Exhibit #3).

6. On October 4, 1962, ICI entered into an agreement with AMHO. That agreement provided *inter alia*:

(a) ICI agreed to sell bulk form griseofulvin to AMHO;

(b) The sale purported to be subject to the conditions of the Glaxo-ICI agreement of 1960;

(c) In regard to bulk sales the agreement stated: "You [AMHO] will not, without first obtaining our [ICI's] consent, resell, or re-deliver in bulk supplies of griseofulvin;"

(d) AMHO was authorized to process the bulk form griseofulvin into tablets or capsules—its dosage form—and to sell it in that dosage form. (Government Exhibit #4).

7. There is a provision, identical to the above-quoted bulk sale provision (#6(c), *supra*) in each of eight other agreements between ICI and AMHO. (ICI answer to U. S. Interrogatory #49).

8. Since 1962 and up until the filing of the complaint, ICI has sold griseofulvin in bulk form to AMHO in amounts exceeding $200,000. (See #10, *infra*).

9. ICI licensed AMHO under ICI's dosage patent to process bulk griseofulvin into pills. (Government Exhibit 4, ¶ 10).

10. Since 1962 and up until the filing of the complaint, AMHO has sold griseofulvin in dosage form only to third parties in amounts exceeding $200,000. (Wallace affidavit of 11/14/68 and sources cited therein; ICI answer to U. S. Interrogatory ##40, 42).

11. AMHO has declined to sell bulk form griseofulvin to third parties without first receiving ICI's permission. (Interrogatories 67 and 74, and answers, and see #10, *supra*).

12. In September, 1967, T. W. M. Bland, of ICI, received a letter from an official at AMHO, Maurice E. Silverstein, indicating that the United States Department of Justice was investigating the bulk sale agreement. (ICI answer to U. S. interrogatory #53; Bland affidavit, 11/6/68; Hoare affidavit, 5/16/68).

13. In October, 1967, without referring to Glaxo, ICI executed a letter cancelling the bulk sale provisions relating to griseofulvin and the eight other pharmaceutical product agreements with AMHO. (ICI answer to interrogatory #49; Hoare affidavit, 5/16/68).

14. ICI has filed affidavits with the Court swearing that it will not reinstate the bulk sale provision in the agreements from which it has been deleted (Hoare affidavit, 5/16/68; Bland affidavit, 11/6/68) and ICI has stated that its intention in deleting the bulk sale provision from the griseofulvin and other agreements was to remove restrictions on the freedom of AMHO to resell the bulk supplies. (Hoare affidavit, 5/16/68; Bland affidavit, 11/6/68; ICI answer to plaintiff's interrogatory #50).

15. ICI has offered to grant non-exclusive licenses under the ICI dosage patent at reasonable terms and conditions and notice of such offer has been directed to the Commissioner of Patents for publication in the Official Gazette. (Kokulis affidavit, 11/7/68).

16. ICI "regards such a restriction [bulk sale restriction] as justifiable in appropriate cases and views the Government's complaint as strictly limited to Griseofulvin." (Hoare affidavit, 5/16/68, at ¶ 9).

17. It is ICI's general, routine practice to include bulk sale restrictions in sales agreements for all its pharmaceutical products. (Hoare affidavit, 5/16/68, at ¶ 4).

B. *Inferences*

[2] The material facts are not in dispute. The defendant argues, however, that the inferences to be drawn from these facts are either disputed or as a matter of law must be resolved in its favor by the granting of its cross motion for summary judgment. If, of course, there are inferences which are both material and disputed, then the Court, particularly in this complex antitrust litigation, could not invoke the extraordinary procedure of summary judgment.[12] Here, however, scrutiny of the pleadings and the "archeology" of the case leads the Court to the conclusion that defendant's assertions of dispute are insubstantial, that the inferences are either clear as a matter of law or immaterial and that there would be no material dispute of fact or inference to be resolved at trial.

ICI argues that the facts relating to the patent interchange are irrelevant to the single motion before the Court on the vertical restraint issue. While it is of course true that the characterization and

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[12] Poller v. Columbia Broadcasting, 368 U.S. 464, 473, 82 S.Ct. 486, 7 L.Ed.2d 458 (1962): *See* Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 89 S.Ct. 1252, 22 L.Ed.2d 495 (April 7, 1969); Citizen Publishing Co. v. United States, 394 U.S. 131, 89 S.Ct. 927, 22 L.Ed.2d 148 (March 10, 1969). *See generally,* Washington v. Cameron (D.C. Cir. 3/4/69); Thompson v. Evening Star Newspaper Co., 129 U.S. App. D.C. 299, 394 F.2d 774 (1968); Semaan v. Mumford, 118 U.S. App. D.C. 282, 335 F.2d 704 (1964); Johnson v. American General Insurance Co., 296 F. Supp. 802, 803 (D.D.C. 1969).

legality of the horizontal aspects of this case are not now before the Court, the Court has found the alleged horizontal factual context helpful background to the proper understanding of the vertical setting and has accordingly considered it only to that end.

Defendant's primary contention is that the covenant in question—

> You [AMHO] will not, without first obtaining our [ICI's] permission, resell or re-deliver in bulk supplies of griseofulvin—

is not an agreement to restrain the alienation of bulk griseofulvin, that permission is not prohibition, that it was never intended to be a restraint and that it never operated as such a restraint.

ICI also argues, however, by way of justification, that this covenant which routinely appears in ICI's agreements around the world [13] had as its purpose the reservation of power in ICI to guarantee the maintenance of proper health standards.[14] It admits that its intention in cancelling the provision was to free AMHO from restraints on its power to resell bulk griseofulvin.[15] ICI admits, therefore, that the agreement effected a retention of power in the vendor, ICI, over the goods it sold its vendee, AMHO. It is not disputed that a sale rather than a consignment or agency was involved.

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[13] Hoare affidavit, 5/16/68. *But see generally* Fashion Originators' Guild v. F. T. C., 312 U.S. 457, 465, 61 S.Ct. 703, 85 L.Ed. 949 (1941) (self-appointed policing of design pirates) and *e. g.*, 21 U.S.C. §§ 351-360a; 21 C.F.R. §§ 130-146(e) (Federal drug regulations).

[14] Bland affidavit, 11/6/68, Hoare affidavit, 5/16/68.

[15] *Id.*

C. *Ultimate Facts*

Thus, the Court finds it undisputable: (1) that there was an agreement between ICI and AMHO the terms of which called for the sale by ICI to AMHO of bulk form griseofulvin with a reservation of power in the seller to control when, where, to whom, and under what conditions the bulk form might be resold in order to ensure proper world-wide medical standards for its use and preparation; (2) that more than $200,000 of commerce in the griseofulvin market is involved; and (3) that the agreement was practiced—a substantial quantity of bulk form griseofulvin was sold to AMHO; AMHO did not resell griseofulvin in bulk to third parties, but rather sought ICI's permission; AMHO sold substantial quantities of griseofulvin only in dosage form.

D. *Argument and Conclusions of Law*

Defendant raises several legal arguments. All but one are of little consequence.[16]

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[16] ICI posits that the restriction was of no consequence because the bulk form griseofulvin market is small, competition vigorous, and market shares divided so ICI does not have monopoly power; and, that therefore, no other pharmaceutical concern desired entry. Citing American Tobacco Co. v. United States, 328 U.S. 781, 66 S.Ct. 1125, 90 L.Ed. 1575 (1946); United States v. Aluminum Co. of America, 148 F.2d 416 (2d Cir. 1945). That there is no effect from an agreement which merely reinforces barriers to entry is a non sequitur, even if relevant. *Compare Schwinn, supra,* note 8, *with* White Motor Co. v. United States, 372 U.S. 253, 83 S. Ct. 696, 9 L.Ed.2d 738 (1963), and see *infra, "1. Schwinn Doctrine." Cf.* Brief for the United States at 25-27, United States v. Sealy, Inc., 388 U.S. 350, 87 S.Ct. 1847, 18 L.Ed.2d 1238 (1967), 9 U.S. Supreme Court Records and Briefs, Pt. II (1966 Term); Brief for Serta Ass'n as Amicus Curiae at 22-23, *id.;* Brief for Appellee, Sealy at 36-37, *id.*

ICI hesitatingly agrees that the amount of commerce involved is legally substantial. It disagrees with the Government's methods of valuation, particularly with the use of the cut form of the drug as a standard since that estimate amounts to millions of dollars. ICI argues that a more accurate figure may be little more than $200,000.[17] The recent case of *Fortner Enterprises*[18] indicates that $200,000 is substantial.

Defendant argues that since the covenant itself is not a contract, combination or conspiracy, the plaintiff must prove a course of conduct amounting to an agreement and it has not done that. On the contrary, defendant argues, the evidence indicates that the policy was unilaterally cancelled and therefore unilaterally imposed.[19] Similarly it asserts the policy was never practiced as a restriction.

[3] The Court disagrees with both points.[20] First, the Court finds that the covenant on its face is an

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[17] Citing *cf.* International Salt v. United States, 332 U.S. 392, 68 S.Ct. 12, 92 L.Ed. 20 (1947). *See* United States v. General Dynamics Corp., 258 F. Supp. 36 (S.D.N.Y. 1966).

[18] Fortner Enterprises v. United States Steel, note 12, *supra.*

[19] *Cf.* Motion of Appellee Schwinn to Affirm at 5-6, United States v. Arnold Schwinn & Co., 388 U.S. 365, 87 S.Ct. 1856, 18 L.Ed.2d 1249 (1967), 25 U.S. Supreme Court Records and Briefs, Part XI, 1966 Term.

[20] *See generally*, McLaren, Marketing Limitations on Independent Distributors and Dealers—Prices, Territories, Customers and Handling of Competitive Products, 13 Antitrust Bulletin 161, 163 (1968); Groenke, What's New in the Antitrust Aspects of Selecting and Terminating Distributors, *id.*, at 131, 143. Even a unilaterally imposed policy may be enough. *See* Stewart, J. dissenting in *Schwinn, supra*, note 8; Albrecht v. Herald, note 23, *infra.*

agreement.[21] Its purpose was to restrain the alienation of bulk form griseofulvin.[22] Accordingly, defendant's extrapolation of a merely unilateral policy from the unilateral cancellation, with which the Court also disagrees, is not persuasive.[23] Secondly, it is apparent from the undisputed facts that the conduct of the parties, pursuant to the covenant, both reinforces the observation that the covenant is an agreement to restrain the alienation of bulk form griseofulvin and itself is conduct evidencing the operation of the restraint.[24]

[4] Defendant ICI has also cross moved for partial summary judgment on the grounds that the case is moot. Citing *Syntax Corporation* from this district, it argues that since the bulk sale restriction has been canceled there is no case or controversy for the Court to litigate.[25] The Court disagrees. In referring to appropriate relief, the Supreme Court has stated:

> The courts have an obligation, once a violation of the antitrust laws has been established, to protect the public from a continuation of the harmful and unlawful activities. A trial court's wide discretion in fashioning remedies is not to be exercised to deny relief altogether by lightly in-

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[21] Undisputed Facts, *supra*, nos. 6, 14, 16, 17 and Hoare affidavit, 5/16/68.

[22] *Id.*

[23] Albrecht v. Herald, 390 U.S. 145, 150 n. 6, 152 n. 8, 88 S.Ct. 869, 19 L.Ed.2d 998 (1968).

[24] *Id.*, at 149-152, 88 S.Ct. 869. *See Schwinn, supra*, note 8; United States v. Parke, Davis Co., 362 U.S. 29, 80 S.Ct. 503, 4 L.Ed.2d 505 (1960).

[25] United States v. Syntax Corp., Civil No. 478-68 (D.D.C. Oct. 15, 1968).

ferring an abandonment of the unlawful activities from a cessation which seems timed to anticipate suit.[26]

It is therefore apparent that a trial court is justified in looking askance at changes in litigants' positions which occur proximately to the filing of antitrust cases.[27] The bulk sale restriction in the instant case was cancelled shortly after the defendant learned of the investigation. Accordingly, the Court does not agree that the case is moot.[28]

Defendant's primary contention is that these facts are not subsumed by the *Schwinn*[29] doctrine, that the plaintiff may not have the advantage of any *per se* rule,[30] that the doctrine of ancillary restraints applies[31] and that the case must be judged by the rule of reason after plaintiff has proved precise market effect and defendant has been given a full opportu-

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[26] United States v. Parke, Davis Co., *supra*, note 24, at 48, 80 S.Ct. at 514.

[27] *Id. See, e. g.*, United States v. W. T. Grant & Co., 345 U.S. 629, 73 S.Ct. 894, 97 L.Ed. 1303 (1953); United States v. Oregon State Medical Society, 343 U.S. 326, 333, 72 S.Ct. 690, 96 L.Ed. 978 (1952). *Cf.* United States v. Ward Baking Co., 376 U.S. 327, 84 S.Ct. 763, 11 L.Ed.2d 743 (1964).

[28] *Parke, Davis, supra*, note 24.

[29] *Supra*, note 8.

[30] Citing, *e. g.*, Northern Pacific Ry. Co. v. United States, 356 U.S. 1, 5, 78 S.Ct. 514, 2 L.Ed.2d 545 (1958).

[31] Addyston Pipe & Steel v. United States, 85 F. 271 (6th Cir.), *aff'd* 175 U.S. 211, 20 S.Ct. 96, 44 L.Ed. 136 (1899); United States v. Columbia Pictures Corp., 189 F. Supp. 153 (S.D.N.Y. 1960); *see* United States v. Bausch & Lomb Optical Co., 45 F. Supp. 387 (S.D.N.Y. 1942), *aff'd* 321 U.S. 707, 64 S.Ct. 805, 88 L.Ed. 1024 (1944).

nity to offer further facts to prove the reasonableness of the relationship.[32]

1. Schwinn Doctrine. Under *Schwinn*, these facts constitute a *per se* violation of the Sherman Act.[33] Both by way of defense and in support of its own motion for summary judgment, ICI argues that *Schwinn* should be confined to its facts. The language of the majority opinion, however, and the complaint of the dissent presage no such narrow application.[34] *Schwinn* holds:

> Once the manufacturer has parted with title and risk, he has parted with dominion over the product, and his effort thereafter to restrict the territory or persons to whom the product may be transferred—whether by explicit agreement or by silent combination or understanding with his vendee—is a *per se* violation of § 1 of the Sherman Act.[35]

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[32] Standard Oil Co. of New Jersey v. United States, 221 U.S. 1, 31 S.Ct. 502, 55 L.Ed. 619 (1911).

[33] *Schwinn, supra,* note 8. *See* Note, Vertical Restraints by a Seller are Per Se Unlawful Unless He Retains Title to the Goods, 36 Geo. Wash. L. Rev. 235 (1967).

[34] *Compare* Schwinn, *supra,* note 8, 388 U.S. at 379, 87 S. Ct. 1856, *with* Schwinn at 388-389, Justices Stewart and Harlan dissenting. *See,* Keck, Alternative Distribution Techniques—Franchising, Consignment, Agency and Licensing, 13 Antitrust Bulletin 177 (1968); Timberg, The Impact of Antitrust Laws on Multinational Licensing and Franchising Arrangements, *id.,* at 39, 52; Zimmerman, Distribution Restrictions After Sealy and Schwinn, 12 Antitrust Bulletin, 1181 (1967).

[35] *Schwinn,* at 382, 87 S.Ct. 1856, 1867.

Schwinn was based in large measure on the ancient rule against restraints on alienation: [36]

> We agree [that the restraints are in the nature of restraints on alienation], and upon remand, the decree should be revised to enjoin any limitation upon the freedom of distributors to dispose of the Schwinn products, which they have bought from Schwinn, where and to whomever they choose. The principle is, of course, equally applicable to sales to retailers and the decree should similarly enjoin the making of any sales to retailers upon any condition, agreement or understanding limiting the retailer's freedom as to where and to whom it will resell the products."

The language of the opinion is clear and unequivocal: [37]

> [W]here a manufacturer *sells* products to his distributor subject to territorial restrictions upon resale, a *per se* violation of the Sherman Act results. And, as we have held, the same principle applies to restrictions of outlets with which the distributors may deal and to restraints upon retailers to whom the goods are sold. Under the Sherman Act, it is unreasonable without more for a manufacturer to seek to restrict and confine areas or persons with whom an article may be traded after the manufacturer has parted with dominion over it. White Motor, *supra;* Dr. Miles, *supra.* Such restraints are so obviously

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[36] *See generally,* Adams v. Burke, 17 Wall. 453, 456, 21 L.Ed. 700 (1873); 2 Coke on Littleton § 360.

[37] Schwinn, *supra,* note 8, 388 U.S. at 378, 87 S.Ct. 1856, 18 L.Ed.2d 1249; see text at note 54, *infra.*

[38] *See* McLaren, *supra,* note 20, at 166.

> destructive of competition that their mere existence is enough. If the manufacturer parts with dominion over his product or transfers risk of loss to another, he may not reserve control over its destiny or the conditions of its resale.[39]

[5] The defendant here is a manufacturer. It entered into an agreement with its licensee-distributor, AMHO, under which the defendant agreed to sell its product, bulk form griseofulvin,[40] to the licensee and the licensee agreed not to resell it without ICI's permission. ICI maintains that the agreement was an attempt on the part of ICI to ensure uniform standards of health and safety in the preparation of a final product throughout the world. Logically this is a retention of control and dominion over a product after title and risk of loss have passed, after a sale. However laudable the motive and unpredictable the rule, this is, under *Schwinn*, a *per se* violation of section one of the Sherman Act.[41]

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[39] Schwinn, *supra*, note 8, at 379, 87 S.Ct. 1856.

[40] Griseofulvin is not the subject of any U.S. patent and ICI has expressly stated it will not rely on any patent in defense. Accordingly, griseofulvin has been treated as though it were an unpatented product. The case has not been characterized as a patent misuse, patent licensing, or know how licensing problem. See note 16, *supra*, and note 43, *infra*. *Compare* Schwinn, *supra*, note 8, at 379 *with* Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373, 31 S.Ct. 376, 55 L.Ed. 502 (1911), McLaren, *supra*, note 20, at 170, and Comanor, *infra*, note 53. Whether the product is finished would appear to be of little competitive and no legal consequence; whether a sale is involved is under *Schwinn* the threshold question. *Cf.*, Ethyl Gasoline Corp. v. United States, 309 U.S. 436, 455-456, 60 S.Ct. 618, 84 L.Ed. 852 (1940).

[41] Schwinn, *supra*, note 8 at 380, 87 S.Ct. 1856. See notes 40, *supra*, 43, *infra*.

Defendant argues that *Schwinn* does not hold that all restraints on alienation are *per se* unlawful.[42] It argues that *Schwinn* only applies to restraints on customers and territories. The Court need not determine whether *Schwinn* goes further than customers and territories for it is apparent from the facts here that the restraint in the instant case is sufficiently broad to cover customers and territories.[43] It is, indeed, a power to prohibit resale altogether, putting the facts at the extreme noted by Mr. Justice Stewart as the original circumstance to which the "hoary formula" applied.[44]

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[42] Citing, *e.g.*, United States v. Columbia Pictures Corp., note 31, *supra*.

[43] The Government has argued that all restraints, whatever the form, on the alienation of any goods, patented or unpatented, are *per se* unlawful: Adams v. Burke, *supra*, note 36; United States v. General Electric, *supra*, note 42; Boston Store v. American Graphophone, 246 U.S. 8, 21, 33, 38 S.Ct. 257, 62 L.Ed. 551 (1918); Ethyl Gasoline Corp. v. United States, *supra*, note 40; Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 37 S.Ct. 416, 61 L.Ed. 871 (1947); United States v. Univis Lens Co., 316 U.S. 241, 250, 252, 62 S.Ct. 1088, 86 L.Ed. 1408 (1942); United States v. Bausch & Lomb Optical Co., *supra*, note 31; Hensley Equipment Co. v. Esco Corp., 383 F.2d 252 (5th Cir. 1967). The facts before the Court are not that encompassing. See ICI answer to plaintiff's interrogatory #47. Here, the goods are not the subject of a U.S. patent and ICI has disclaimed any reliance on its patents. The Court finds from the argument and memoranda, therefore, that it need not rule on whether *Schwinn* applies to patented goods. *See* note 40, *supra*, and *Schwinn* at n. 6. Similarly, neither the litigants nor the Court have attempted to characterize this as a tie in. *See also* Atty. Gen. Report at 172 n. 14, 186-188 (know-how licensing) (Supplement, 1968).

[44] Schwinn, *supra*, note 8 at 390, 87 S.Ct. 1856, 18 L.Ed.2d 1249 (Stewart, J. dissenting).

2. Ancillary Restraints and Schwinn. Defendant also makes the argument in several different forms that the doctrine of ancillary restraints, not overruled by *Schwinn*, applies here.[45] The Court agrees that the doctrine of ancillary restraints was not overruled by *Schwinn*. It seems clear, however, that the doctrine was ruled out of a *Schwinn*-type sale situation.[46] The Supreme Court found that the mere existence of such restraints was henceforth to be enough to show a violation of the Sherman Act.[47] It considered the doctrine of ancillary restraints specifically only where no sale was involved.[48] It would be presumptuous to say the least for this Court to read the rule of reason back into a sale situation; that possibility has been foreclosed.[49]

Defendant's position is essentially the same as that announced by Justices Harlan and Stewart in their dissent in *Schwinn:* The wooden formula proscribing restraints on alienation is not as rigid as the major-

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[45] United States v. Columbia Pictures Corp., *supra*, note 31. *See*, United States v. Sealy, 388 U.S. 350, 87 S.Ct. 1847, 18 L.Ed.2d 1238 (1967); Northern Pacific v. United States, *supra*, note 30; United States v. Bausch & Lomb Optical Co., *supra*, note 31; Addyston Pipe & Steel v. United States, *supra*, note 31; Packard Motor Car Co. v. Webster Motor Car Co., 100 U.S. App. D.C. 161, 243 F.2d 418 (1957), *cert. denied*, 355 U.S. 822, 78 S.Ct. 29, 2 L.Ed.2d 38 (1957).

[46] *Schwinn, supra*, note 8, 388 U.S. at 380, 87 S.Ct. 1856, 18 L.Ed.2d 1249; see notes 40, 43 *supra*.

[47] *Id.*, at 382, 87 S.Ct. 1856.

[48] *Id.*, at 380-381, 87 S.Ct. 1856.

[49] *Compare* White Motor Co. v. United States, 372 U.S. 253, 263, 83 S.Ct. 696, 9 L.Ed.2d 738 (1963) *with Schwinn, supra*, note 8 at 379, 87 S.Ct. 1856, and *with Schwinn* at 389, 87 S.Ct. 1856 (Stewart, J. dissenting). *See generally*, Keck, *supra*, note 34.

ity holds; the doctrine of ancillary restraints was a significant part of its meaning and restrictions like those involved in a franchising program "*should*" be able to claim justification under that doctrine with a rule of reason inquiry.[50] A philosophy favoring the burgeoning franchising system [51] as both a boon to competition and as an opportunity for the survival of the individual "mom and pop" business underpins this position and lends to defendant's argument the "ring of something familiar." [52] Persuasive as that theory may seem,[53] however, it is foreclosed to these facts by the majority opinion in *Schwinn* which took a different view in regard to sale situations.

The majority stated:

> To permit this would sanction franchising and confinement of distribution as the ordinary instead of the unusual method which may be permissible in an appropriate and impelling com-

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[50] *Id.*, at 392, 87 S.Ct. 1856. See Note, *supra*, note 33 and note 31. *Cf.* Brief for the United States, at 25-27, United States v. Sealy, Inc., *supra*, note 16.

[51] *See generally*, Zeidman, The Growth and Importance of Franchising—Its Impact on Small Business, 12 Antitrust Bulletin 1191 (1967).

[52] *Schwinn*, *supra*, note 8 at 386-387, 87 S.Ct. 1856. *Cf.*, United States v. Von's Grocery Co., 384 U.S. 270, 86 S.Ct. 1478, 16 L.Ed.2d 555 (1966); Alioto & Blecher, Antitrust in Galbraith's New Industrial State, 13 Antitrust Bulletin 215 (1968). *See generally*, Timberg, *supra*, note 32.

[53] But, *compare* authority cited notes 31 and 32 *with* Comanor, Vertical Territorial and Customer Restrictions: White Motor and Its Aftermath, 81 Harv. L. Rev. 1419 (1968), where the author argues that all customer and territorial restrictions should be *per se* unlawful regardless of sale-consignment distribution.

petitive setting, since most merchandise is distributed by means of purchase and sale. On the other hand, as indicated in *White Motor*, we are not prepared to introduce the inflexibility which a *per se* rule might bring if it were applied to prohibit all vertical restrictions of territory and all franchising, in the sense of designating specified distributors and retailers as the chosen instruments through which the manufacturer, retaining ownership of the goods, will distribute them to the public. Such a rule might severely hamper smaller enterprises resorting to reasonable methods of meeting the competition of giants and of merchandising through independent dealers, and it might sharply accelerate the trend towards vertical integration of the distribution process. But to allow this freedom where the manufacturer has parted with dominion over the goods — the usual marketing situation — would violate the ancient rule against restraints on alienation and open the door to exclusivity of outlets and limitation of territory further than prudence permits."

Accordingly, this Court may not consider the reason-

" *Schwinn, supra*, note 8 at 379, 87 S.Ct. 1856, 1866. Defendant mentions that there is no evidence of market shares, characterizing such evidence as "ordinarily highly relevant to antitrust inquiry." The Court understands this argument to be pressed only in connection with an acceptance of defendant's theory that the rule of reason applies. Market shares and market effect were important to the approach of *White Motor* where it was necessary to determine whether a slight restraint on intraband competition actually resulted in a significant increase in interbrand competition. *Schwinn*, however, not *White Motor*, controls in the instant situation.

ableness of the restriction or its business justification in mitigation of illegality.[55]

For these reasons, the Court finds, beyond peradventure of doubt, a *per se* violation of section one of the Sherman Act and will grant the motion of the Government for a partial summary judgment. It will deny the motion of ICI for summary judgment.

III. Jurisdiction and Standing Package

Defendant ICI has moved under Rule 12(c) for a judgment that the Court does not have jurisdiction to determine any/or that the United States does not have standing to challenge the validity of the ICI patent.

United States v. United States Gypsum [56] noted that where a party raises a patent in defense of an antitrust suit the United States plaintiff may challenge the validity of that patent. The Supreme Court distinguished this situation in which the Government was suing for violation of the antitrust laws from that of *Bell Telephone* [57] where the Government was suing to cancel a patent on the ground of invalidity.[58]

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[55] *Id.* at 388, 87 S.Ct. 1856. *See also,* Times-Picayune Pub. Co. v. United States, 345 U.S. 594, 614, 73 S.Ct. 872, 97 L.Ed. 1277 (1953); United States v. Griffith, 334 U.S. 100, 108, 68 S.Ct. 941, 92 L.Ed. 1236 (1948); United States v. Patten, 226 U.S. 525, 543, 33 S.Ct. 141, 57 L.Ed. 333 (1913). ICI is, of course, held to have intended the necessary consequences of its acts.

[56] 333 U.S. 364, 68 S.Ct. 525, 92 L.Ed. 746 (1948).

[57] United States v. American Bell Telephone Co., 128 U.S. 315, 9 S.Ct. 90, 32 L.Ed. 450 (1888); United States v. American Bell Telephone Co., 167 U.S. 224, 17 S.Ct. 809, 42 L.Ed. 144 (1897).

[58] *Gypsum, supra,* note 56, at 387, 68 S.Ct. 525.

In the instant case, defendant ICI has filed affidavits swearing that it does not intend, and in any event will not, raise its patent in defense of the antitrust claims. United States v. United States Gypsum,[59] therefore, is inapposite. Accordingly, the issue is whether the United States can challenge ICI's patent independent of any antitrust claims.

A review of the patent laws indicates that there has been a particular, if also serpentine, development of a right on the part of the Government to sue in United States District Court for a declaration of invalidity of a patent only on the grounds of "fraud or deceit." [60] The patent acts of 1790 [61] and 1793 [62] contained provisions under which a private party could, upon allegations of fraud, petition a district court judge to issue an order for a patentee to show cause why his letters patent should not be repealed.[63] The provision was inexplicably omitted from the 1836 act [64] which did, however, include several new statutory defenses to private infringement action.[65]

In 1871 in Mowry v. Whitney, the Supreme Court decided that the omission from the 1836 act of the

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[59] *Id.*

[60] United States v. American Bell Telephone, *supra*, note 57. *See* Cullen & Vickers, Fraud in the Procurement of a Patent, 39 Geo. Wash. L. Rev. 110 (1960). This article presents in greater detail the history reviewed and condensed here. *Id.*, at 112-117.

[61] Act of 1790, § 5, 1 Stat. 109.

[62] Act of 1793, § 10, 1 Stat. 318.

[63] *E.g.*, *Ex parte* Wood & Brundage, 22 U.S. 603, 6 L.Ed. 171 (1824).

[64] Act of 1836, 5 Stat. 117.

[65] Act of 1836, § 15, 5 Stat. 117.

specific right precluded a private party from suing to cancel.[66] It was noted that the alleged fraud was perpetrated, if at all, on the United States, not the individual. In 1876, a district court in Rhode Island held that the Attorney General was not the proper party to bring a suit for cancellation.[67] In *dictum* it argued that the *Mowry* [68] case merely noted that the public relied on the Government for protection; what if any protection had been afforded was still in doubt. It then noted that jurisdiction to afford protection had been lodged in the Commissioner of Patents with a limited right to appeal to the courts. Collateral attack was thus precluded. Seven years later a district court in New York disagreed with the *Hecker* case [69] and held that while specific statutory authorization was needed for a private individual to sue for cancellation, as between the grantor (the United States) and the grantee (the Patentee), when it is alleged that fraud was practiced on the grantor, it must have the right to sue for cancellation.[70] The importance of the notion that the complaint involves a fraud practiced on the United States—that is, that the United States was the party in interest—was emphasized shortly thereafter in the *Frazer* case [71] when a district court in Illinois dismissed a suit for cancellation based on a notorious fraud because private

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[66] Mowry v. Whitney, 81 U.S. 434, 20 L.Ed. 858 (1871).

[67] Attorney General ex. rel. Hecker v. Rumford Chemical Works, 32 F. 608 (D.R.I. 1876).

[68] *Mowry, supra,* note 66.

[69] *Supra,* note 67.

[70] United States v. Gunning, 18 F. 511 (D.N.Y. 1883).

[71] United States v. Frazer, 22 F. 106 (N.D. Ill. 1884).

parties had put up the requisite bond evidencing their paramount interest in the case.

Against this background in 1888, the issue was presented to the Supreme Court.[73] Relying heavily on *Mowry*,[74] it held in United States v. American Bell Telephone that the Government could sue to obtain the cancellation of a fraudulently procured patent:

> This [patent right] has been taken from the people, from the public, and made the private property of the patentee by the action of one of the departments of the government acting under the forms of law, but deceived and misled, as the bill alleges, by the patentee. That the government, authorized both by the constitution and the statutes to bring suits at law and in equity, should find it to be its duty to correct this evil, to recall these patents, to get a remedy for this fraud, is so clear that it needs no argument; and we think we have demonstrated that the proper remedy is the one adopted by the government in this case.[75]

The Government argues that the *Bell* case held that the Government could sue independently to cancel a patent on the grounds of "fraud, mistake or error as to power" and that the challenge here sought is an "error as to power." The Court disagrees on both points.

First, even if it were the case that the phrase "error as to power" stands unqualified, the Govern-

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[73] United States v. American Bell Telephone, 128 U.S. 315, 9 S.Ct. 90, 32 L.Ed. 450 (1888).

[74] *Supra*, note 66.

[75] First Bell Telephone, *supra*, note 72 at 370, 9 S.Ct. 90, 98, 32 L.Ed. 450.

ment's claim here would not fit its rubric, for it is only in the sense that any error may be characterized as an "error as to power" that the challenge here would fit the phrase.

Second, perhaps because of the ambiguity of the phrase, the second occasion the *Bell* case came up, the Court, though not necessary to its holding, specifically noted that the language of its former opinion was not to be read broadly.[75] After characterizing that former language as "general," it noted:

> But while there [in the first *Bell*, case] was thus rightfully affirmed the power of the government to proceed by suit in equity against one who had wrongfully obtained a patent for land or for an invention, there was no attempt to define the character of the fraud or deceit or mistake, or the extent of the error as to power which must be established before a decree could be entered cancelling the patent. It was not affirmed that proof of any fraud, or deceit, or the existence of any error on the part of the officers as to the extent of their power, or that any mistake in the instrument was sufficient to justify a decree of cancellation. Least of all was it intended to be affirmed that the courts of the United States, sitting as courts of equity, could entertain jurisdiction of a suit by the United States to set aside a patent for an invention on the mere ground of error of judgment on the part of the patent officials. That would be an attempt on the part of the courts in collateral attack to exercise an appellate jurisdiction over the decisions of the patent office, although no

[75] United States v. American Bell Telephone Co., 167 U.S. 224, 17 S.Ct. 809, 42 L.Ed. 144 (1897).

appellate jurisdiction has been by the statutes conferred. We are of the opinion, therefore, that the question, as stated, is not open for consideration in this case."[16]

[6] Thus, the present state of the most apposite case law strictly interpreted indicates that the Government may only sue to cancel a patent when "fraud or deceit" is alleged. The notion underpinning this is that a fraud perpetrated on the United States should be actionable by it. Correspondingly, the Government may not sue to cancel a patent for any reason. It may not sue when to do so would merely collaterally attack the judgment of the Commissioner."[17]

The Government, relying on an argument of public policy extrapolated from the *San Jacinto Tin Company* case of 1888,[18] states that there is a strong public interest in proper policing of the patent system and tautologically notes that the sovereign grant of limited monopolies through patents must be carefully scrutinized. Then, by analogy to other areas, it argues that where there is a powerful public interest entrusted to the Government, there is necessarily a correlative right in the Government to sue to protect its interest. It argues, in effect, that the language of the *Bell cases* should be read broadly to recognize a dormant, inherent power in the Department of Justice to attack collaterally the validity of patents on any grounds.[19] The Court disagrees.

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[16] *Id.*, at 269-270, 17 S.Ct. at 821-822.

[17] *Id.*

[18] United States v. San Jacinto Tin Co., 125 U.S. 273, 8 S.Ct. 850, 31 L.Ed. 747 (1888).

[19] Kennedy, Patent and Antitrust Policy: The Search for a Unitary Theory, *supra*, note 7; *cf.* United States v. Singer

The patent system is an intricate if sometimes excoriated structure and unlike the areas to which the Government analogizes, a section of the Government which has already been devoted to concern itself with this interest.[80] A specific agency has been authorized under highly particularized circumstances to grant patents. Limited rights of review and appeal from that decision exist.[81] Others have been proposed.[82] Even in this limited context (which the Government would now broaden), where the granting agency and the enforcing body are separate, there is undesirable confusion, expense and corresponding waste:

> Further, the [President's] Commission [on the Patent System] apparently never recognized the anomaly which allows the governmental "enforcement agency," the judiciary, to operate entirely apart from the "granting agency," the Patent Office. There is a total lack of communication between these two separate "agencies" when it is needed most—when the validity and scope of a patent are in question. This was highlighted recently in American Cyanamid Company v. FTC where the important issue of whether the Patent Office Examiner had been misled was de-

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Mfg. Co., 374 U.S. 174 at 197-200, 83 S.Ct. 1773, 10 L.Ed.2d 823 (White, J. concurring) (1963).

[80] Report of the President's Commission on the Patent System (1966); Rich, Commentary—Proposed Patent Reform, 1967, 36 Geo. Wash. L. Rev. 95 (1967).

[81] *Id. See, e.g.*, Morgan v. Daniels, 153 U.S. 120, 14 S.Ct. 772, 38 L.Ed. 657 (1894); Reynolds v. Aghnides, 123 U.S. App. D.C. 28, 356 F.2d 367 (1966); Stieg v. Commissioner of Patents, 122 U.S. App. D.C. 361, 353 F.2d 899 (1965).

[82] Symposium, Commentary—Proposed Patent Reform, 1967, 36 Geo. Wash. L. Rev. 95-143 (1967).

> bated by both sides—undoubtedly at great expense—until the Court of Appeals for the Sixth Circuit, with ineluctable logic, suggested that someone ought to ask the Examiner whether he was misled.[83]

Proposals for revision have been rejected by Congress.[84] Commentators have suggested that the authority of the United States to sue to cancel a patent should be broadened beyond situations where it is alleged that a fraud has been practiced upon it.[85] Others have argued that an "inherent power" such as the Government here suggests should be utilized.[86] Still others lament that because (as of 1960) the Government had sued only nine times to canel a patent on the grounds of fraud, any expansion of power to sue to cancel would be practically meaningless; the Government rarely uses the power it has.[87] Similarly, it is noteworthy that there are alternative means of protecting the interest now asserted by the Government which merit careful evaluation.[88]

With these variables in mind, it would be impetuous for this Court to set about curing the ills of both

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[83] *Id.*, at 112.

[84] See *id.*

[85] Note, 48 Yale L.J. 1095, (1939), where at 1099 the author argues that "Neither Congress, nor President, nor Patent Office, under the present statute, may repeal letters—patents once they have issued. By default as well as by historical analogy the power must lie with the courts." This assumes that the power is not one intentionally withheld or which if granted would not upon careful study be granted to for instance the Patent Office.

[86] Kennedy, *supra*, note 7.

[87] *Id.*, at 536-537; Cullen & Vickers, *supra*, note 58.

[88] Cullen & Vickers, *supra*, note 58 at 117.

the patent system and the antitrust laws in a "wreck and rebuild" fashion by fertilizing a dormant power in the Department of Justice to challenge patents collaterally for any reason. The Supreme Court has noted two exceptions to a system which precludes the Government from independently seeking the cancellation of a patent. Neither of the exceptions applies to the facts now before the Court.[89]

[7] Accordingly, the motion of defendant ICI under Rule 12(c) will be granted and the challenged paragraphs of the complaint will be ordered stricken.

IV. Motion To Amend the Complaint Package

The United States has moved to amend its complaint to: (1) allege an additional violation of the antitrust laws in the form of a conspiracy to boycott; (2) to add two defendants allegedly involved in the proposed alleged boycott violation—Johnson and Schering; and (3) to allege the invalidity of an additional patent held by Glaxo. In support of its motion the Government argues that the additional charges concern a related violation of the antitrust laws arising from and being in furtherance of the matters concerned in the charges brought in the original complaint. Moreover, it argues that discovery is nearly complete in this case and would have to be duplicated wastefully were it relegated to bringing a separate suit.

[8] The Court disagrees and will deny the motion to amend the complaint. First, the Court has granted

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[89] United States v. United States Gypsum, *supra*, note 56; United States v. American Bell Telephone, *supra*, note 57. *See* United States v. Cold Metal Process Co., 57 F. Supp. 317 (N.D. Ohio 1944), *aff'd* 164 F.2d 754 (6th Cir. 1947), *cert. denied* 334 U.S. 811, 68 S.Ct. 1016, 92 L.Ed. 1742 (1948), *rehearing denied* 334 U.S. 835, 68 S.Ct. 1343, 92 L.Ed. 1761 (1948).

the motion of Johnson and Schering, the proposed new defendants, to intervene and has considered their arguments.[90]

Second, the earlier section of this opinion which grants ICI's motion for a judgment under 12(c) holds that the Government may not independently attack the validity of patents in these proceedings. Similarly, the Government also may not amend its complaint to allege the invalidity of an additional patent unless it comes within the rule of the *Gypsum case* or alleges "fraud or deceit." [91] Since there is no indication that either situation will obtain here, that part of the motion to amend is necessarily denied.[92]

Considering the arguments of both present and proposed defendants and having reviewed the state of the ponderous record thus far compiled, the Court will also deny the remainder of the motion to amend. The record reveals that discovery is nearly complete and the case is in its terminal pretrial stages. The Government's argument that it would be wasteful to have to duplicate this discovery is specious. Indeed, the theory of the Government's argument is a solid basis for the defendant's position: To allow amendment with the case in its terminal stages would promote extended and unnecessary delay. All of the discovery thus far, which the Government admits is substantial, would have to be duplicated in any event since the

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[90] 3A Moore, Federal Practice, ¶ 21.05, at 2909 (2d Ed. 1967). *See* United States v. National Screen Service Corporation, 20 F.R.D. 226 (S.D.N.Y. 1957); Looper v. Colonial Coverlet Co., 29 F. Supp. 121 (E.D. Tenn. 1939).

[91] United States v. United States Gypsum Co., *supra*, note 56.

[92] Without prejudice to its renewal, of course, should a *Gypsum* problem arise.

proposed defendants were not parties to, for instance, the numerous depositions. Under Rule 26(d) the discovery would not be admissible against them.[93]

The Government has volunteered that it could file an independent suit to charge the matter alleged in the proposed amendment. Since discovery would have to be repeated anyway, it appears there would be no substantial hardship to the Government in following this separate course. On the other hand, to allow amendment would promote delay in a case nearly through its pretrial stages and hardship to the defendant parties involved.

In addition, the Court notes that the proposed defendants are not necessary parties to the present litigation;[94] and moreover, the proposed charges are not directly related, i na legal sense, to those near disposition in the original complaint.[95] The new allegations charge Glaxo and the proposed defendants with a scheme illegally to boycott another corporation. It is not clear that ICI would be involved in this new charge and it is only from the Government's argument in support of its motion to amend that the Court is aware that it might argue that this is all one scheme

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[93] American Photocopy Equip. Co. v. Rovico, Inc., 384 F.2d 813 (7th Cir. 1967), *cert. denied* 390 U.S. 945, 88 S.Ct. 1030, 19 L.Ed.2d 1133 (1968). *See* Benger Labs. Limited v. R. K. Laros Co., 24 F.R.D. 450 (E.D. Pa. 1959).

[94] Parker v. Broadcast Music, Inc., 30 F.R.D. 151 (S.D.N.Y. 1962); Benger Labs. Limited v. R. K. Laros Co., *supra*, note 93; United States v. Nationwide Trailer Rental System, Inc., 156 F. Supp. 800 (D. Kan. 1955), *aff'd per curiam* 355 U.S. 10, 78 S.Ct. 11, 2 L.Ed.2d 20 (1957).

[95] Philadelphia Dressed Beef Co. v. Wilson Co., 19 F.R.D. 198 (E.D. Pa. 1956). *See also* Music Merchants, Inc. v. Capitol Records, Inc., 20 F.R.D. 462 (E.D. N.Y. 1957).

involving all defendants named. It thus appears that the requirements of Rule 20(a) have not been met.

The Court recognizes that this is primarily a matter of characterization and it has accordingly carefully compared the instant case to the situation in Continental Ore Company v. Union Carbide & Carbon Company.[96] There the Supreme Court stated that it was improper to consider as fragmented the individual charges comprising an overall scheme including both section one and section two Sherman Act charges. The Government relies on this case for the proposition that it would be error for it to bring separate suits and that amendment should be permitted.

Continental Ore did not, however, involve the problem of amending the complaint. The consideration involved there was the approach of a Court of Appeals to the review of a jury verdict. None of the countervailing considerations present here, such as hardship and delay, were involved there. There is no indication that the complaint was amended on the eve of trial. The Government's lack of preparation, for whatever reason and however unavoidable, here should not work to the prejudice of the defendants.

Accordingly, the Government's motion to amend the complaint will be denied.

V. Discovery Package

In light of the Court's rulings on the previous motions, disposition of at least some of the discovery motions may be unnecessary. The Court's disposition of the following motions, which appear to be still of possible relevance, and the omission of others, is, there-

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[96] Continental Ore Co. v. Union Carbide & Carbon Co., 370 U.S. 690, 82 S.Ct. 1404, 8 L.Ed.2d 777 (1962).

fore, without prejudice to the renewal of those not here decided.

A. *November 25, 1968, Pretrial Ruling*

The United States has objected to certain of Glaxo's interrogatories which seek, among other identifying detail, the names and addresses of the parties to communications which the Government claims fall within the work product rule.[97] On November 25, 1968, the Pretrial Examiner sustained the Government's objections. Glaxo objects to that ruling.

The Government's resistance to this discovery is two-fold. First, it argues that identifying the documents withheld as work product would defeat the work product rule.[98] Secondly, it argues the names and addresses are protected by the informer's privilege.[99]

[9] As to the second, it seems undisputable that if, as Glaxo argues, the names have already been made public or communicated to Glaxo, or soon will be, secrecy has been breached and the privilege should be no bar.[100] Nor does the Court find any basis for agreeing with the first of the Government's arguments. The work product rule protects, as the phrase implies, work product, not the fact of its existence or non-existence and correspondingly not its common identity.

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[97] Hickman v. Taylor, 329 U.S. 495, 513, 67 S.Ct. 385, 91 L.Ed. 451 (1947).

[98] *Id. See* United States v. American Optical Company, 37 F.R.D. 233, 236-237 (E.D. Wis. 1965).

[99] *See* Roviaro v. United States, 353 U.S. 53, 61, 77 S.Ct. 623, 1 L.Ed.2d 639 (1957).

[100] The informer's privilege protects an informer's identity, not the facts he may disclose. *Id.*

> Even where the work product doctrine applies, it protects only documents obtained by or for the attorney, and his mental impressions or conclusions. It does not furnish any shield against discovery, by interrogatories or by deposition, of the facts which the adverse party's lawyer has learned, or the persons from whom he has learned such facts, or the existence or nonexistence of documents, though the documents themselves may have a qualified immunity from discovery.[101]

The cases upon which the Government relies either restate the familiar rule or apply it to communications to an attorney.[102] Unquestionably a communication to an attorney in connection with particular litigation may be, among other privileges, work product. But it is the substance of the communication which is protected, not its identity, unless, of course, on certain peculiar facts an identity is also claimed to be work product.[103]

[10] While, for instance, in good faith the Government might claim a particular communication reflects confidential work product, unknown to the Government that communication or its substance may have been published by one of its other parties. Should such revelation have occurred, the seekers would be entitled to request it from the alternative source. That is what the Court understands to be claimed here. That conforms to the spirit of the discovery

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[101] Barron & Holtzoff, 2A Federal Practice and Procedure, § 652.2, p. 139.

[102] *E.g.*, Un.ted States v. American Optical Co., *supra*, note 98.

[103] *See* McCall v. Overseas Tankship Corp., 16 F.R.D. 467, 469 (S.D.N.Y. 1954); Cities Service Oil Co. v. Celanese Corp. of America, 14 F.R.D. 246 (D. Del. 1953).

rules without violating the philosophy of the work product rule. If anywhere, "trial by ambush" is to be avoided in complex antitrust litigation. Accordingly, Glaxo's objections will be sustained. The order of the Pretrial Examiner of November 25, 1968, is overruled.

B. *November 6, 15, 1968, Pretrial Rulings*

The United States has objected to rulings of the Pretrial Examiner dated November 6 and November 15, 1968, and has moved the Court under Rule 37 to compel answers to certain interrogatories. In light of the Court's disposition of defendant's Rule 12(c) motion and its denial of the Government's motion to amend much of this discovery controversy is moot.

[11] The remaining controversy is over an interrogatory seeking defendants' contentions with respect to any justifications they may urge in defense of allegedly unlawful restrictive provisions. Defendants object on the grounds that the query demands legal contentions, not properly discoverable in this jurisdiction.[104] The Court agrees.

The Government relies primarily on a Delaware case which held that certain contentions were discoverable in the context of a patent case.[105] It also cites a proposal before the Judicial Conference.[106] Neither of these authorities, even if applicable to

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[104] *E.g.*, United States v. Maryland and Virginia Milk Producers Ass'n, 22 F.R.D. 300 (D. D.C. 1958). *See* Fishermen & Merchants' Bank v. Burin, 11 F.R.D. 142 (S.D. Cal. 1951).

[105] Montematini Edison, S.p.A. v. Rexall Drug & Chemical Co., 288 F. Supp. 486 (D. Del. 1968).

[106] Preliminary Draft of Proposed Amendments to Rules of Civil Procedure for the United States Courts (Nov. 1967), Rule 33(b).

this antitrust case, is as compelling as the decision in this jurisdiction in United States v. Maryland and Virginia Milk Producers Association.[107] There Judge Holtzoff held that legal contentions are not subject to discovery:

> To answer it would be, in effect, to submit a skeletonized brief on the facts and the law. It is not the purpose of discovery to ascertain what arguments the opposing party intends to use in support of his contentions.[108]

Accordingly, the United States' objections to the ruling of the Pretrial Examiner will be overruled.

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[107] *Supra*, note 104.

[108] *Id.*, 22 F.R.D. at 302.

APPENDIX C

[Caption Omitted; November 20, 1969]

ORDER

SIRICA, J.: The motion of plaintiff for partial summary judgment and of Glaxo Group Limited to quash the service of the summons and complaint having come on to be heard before this Court on October 20, 1969, and counsel having been heard, and after due consideration, the Court hereby makes the following findings of fact and conclusions of law.

A. *Findings of Fact*

1. Defendant Glaxo sells substantial quantities of bulk form griseofulvin, an oral antifungal antibiotic, in an unpatented form (regular particle size) to each of two United States companies, Johnson & Johnson, Inc. and Schering Corporation.

2. Defendant Glaxo sells substantial quantities of bulk form griseofulvin in a patented form (fine particle size) to each of two United States companies, Johnson & Johnson, Inc. and Schering Corporation.

3. Glaxo entered into agreements in 1959 with Johnson & Johnson, Inc. and Schering Corporation. These agreements expressly provide that such vendees are prohibited from reselling such purchased griseofulvin in bulk form. These agreements were maintained in effect at least until the filing of the complaint in this case.

4. Johnson & Johnson, Inc. and Schering Corporation adhered to these agreements not to sell such purchased griseofulvin in bulk form at least until the filing of the complaint in this case.

B. *Conclusions of Law*

1. The agreements of Glaxo with Johnson & Johnson, Inc. and Schering Corporation that the latter would not resell bulk form griseofulvin, whether patented or unpatented, that Glaxo sold to them are in *per se* violation of the Sherman Act.

2. Plaintiff's motion for a partial summary judgment to that effect is granted.

3. Glaxo's motion to quash service of the summons and complaint upon it is denied.

4. Glaxo's motion to dismiss plaintiff's motion for failure to comply with Local Rule 9 is dismissed as moot, plaintiff having brought itself into compliance with that Rule.

APPENDIX D

[Caption Omitted; April 30, 1970]

ORDER

McGUIRE, D. J.: The Motion of Plaintiff for Partial Summary Judgment having come on to be heard before this Court on March 24, 1970, and counsel having been heard, and after due consideration, the Court hereby makes the following findings of fact and conclusions of law.

A. *Findings of Fact*

1. Defendants Glaxo and ICI agreed that ICI would not permit its vendees to resell bulk form griseofulvin which they purchase from ICI.

2. Pursuant to its agreement with Glaxo, ICI entered into an agreement with its United States vendee, AMHO, whereby AMHO agreed not to resell griseofulvin purchased from ICI in bulk form.

3. Pursuant to the ICI-AMHO agreement, ICI has sold substantial quantities of bulk form griseofulvin which, at least until the filing of the complaint in the case, AMHO has refused to sell to third parties in bulk form.

B. *Conclusions of Law*

1. The agreement of Glaxo and ICI that ICI would not permit its vendees to resell bulk form griseofulvin which they purchased from ICI is in *per se* violation of Section 1 of the Sherman Act insofar as that agreement applied to United States vendees of ICI.

2. Plaintiff's Motion for Partial Summary Judgment to the effect stated in the prior paragraph is granted.

APPENDIX E

[Caption Omitted; June 17, 1971]

MEMORANDUM

GASCH, Justice: In this action the Government seeks declaratory and injunctive [1] relief against two British corporations for violations of section one of the Sherman Act.[2] Defendant Imperial Chemical Industries, Limited (ICI) manufactures the antibiotic griseofulvin. The drug is marketed in the United States by Ayerst Laboratories Division of American Home Products Corporation (Ayerst) under an exclusive distributorship agreement with ICI.[3] Included in this agreement was a provision prohibiting Ayerst from reselling bulk supplies of griseofulvin without ICI's consent. On plaintiff's motion for partial summary judgment this Court ruled that ICI's restriction of its vendee's freedom to resell purchased goods was a *per se* violation of section one of the Sherman Act.[4] Similar agreements between defendant Glaxo Group Limited (Glaxo) and its United States distributors Johnson, and Johnson, Inc., and Schering Corporation were subsequently held to be *per se* violations of the Sherman Act.[5] Finally, an agreement between Glaxo and ICI that ICI would not permit

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[1] Sherman Act § 4, 15 U.S.C. § 4 (1964).

[2] 15 U.S.C. § 1 (1964).

[3] For further details of the business relationship between ICI and Ayerst, see *United States* v. *Glaxo Group, Ltd.*, 302 F. Supp. 1 (D. D.C. 1969) [hereinafter cited as *Glaxo*].

[4] Order of June 4, 1969: *Glaxo*, 302 F. Supp. 1, 11 (D. D.C. 1969) (Gasch, J.).

[5] Order of November 20, 1969 (Sirica, J.).

its vendees to resell bulk form griseofulvin purchased from ICI was declared a *per se* violation of the antitrust laws insofar as it applied to United States vendees of ICI.[6] These grants of partial summary judgments in favor of plaintiff amount to full adjudication on the merits and the case is now before the Court for entry of final judgment.[7]

[*Scope of Relief*]

Plaintiff and defendants have each submitted proposed final judgment; extensive briefs and affidavits were filed in support of the parties' positions with respect to the scope of relief to be granted and a hearing was held in open Court concerning the form of final judgment. Defendants contend in the first instance that no injunctive relief is warranted under the circumstances of this case. The principal area of contention, however, concerns that portion of the Government's proposed decree which would require defendants to (1) sell griseofulvin in bulk on reasonable and nondiscriminatory terms and prices to all bona fide applicants, and (2) grant reasonable royalty-licenses under their United States patents relating to the manufacture and processing of griseofulvin[8] together with technical data usable in the manufacture or processing of griseofulvin.

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[6] Order of April 30, 1970 (McGuire, J.).

[7] Certain portions of the original complaint were ordered stricken, *Glaxo*, 302 F. Supp. at 15, and plaintiff's motion to amend the complaint was denied, *id.* at 16.

[8] For details of the Glaxo and ICI patents and their licensing agreements, see *Glaxo*, 302 F. Supp. 4 and nn. 10 and 11.

[*Abandonments*]

Defendants' contention in opposing any injunctive relief is based on the voluntary abandonment of the bulk resale restrictions by Glaxo and ICI prior to litigation in this case. They rely on the rule that even where there has been an adjudicated violation of the antitrust laws injunctive relief is appropriate only where there is a significant threat of future violation. *United States* v. *W. T. Grant Co.*[9] The Court concludes, however, that on the evidence presented in this record and on the statement by defendants that it has been their regular policy in the past to include such restrictive covenants in their contracts, that the threat of future violations is sufficient to warrant enjoining repetition of the illegal activity.[10]

The relief proposed by the Government goes beyond mere restraint of the conduct found to be illegal. It seeks positive relief in the form of compulsory sales and compulsory patent-licensing provisions. As authority for this relief, plaintiff relies primarily on *International Salt Co.* v. *United States*,[11] *Besser Manufacturing Co.* v. *United States*,[12] and *United States* v. *United Shoe Machinery Corp.*[13]

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[9] 345 U.S. 629 (1953); *United States* v. *Parke, Davis & Co.*, (D. D.C.).

[10] Ordinarily injunctive relief which restrains the doing of acts found to be in violation of the antitrust laws is granted. *See, e.g., Standard Oil Co.* v. *United States*, 221 U.S. 1, 77 (1911). *See also, International Salt Co.* v. *United States*, 332 U.S. 392, 403 (1947) (Frankfurter, J., dissenting).

[11] 332 U.S. 392 (1947).

[12] 343 U.S. 444 (1952).

[13] 110 F. Supp. 295 (D. Mass., 1953), *aff'd*, 347 U.S. 521 (1954).

The Government characterizes the holding in *International Salt* as authorizing the ordering of compulsory, nondiscriminatory sales to "effectively pry open to competition a market that has been closed by defendants' illegal restraints." [14] The decree in *International Salt*, however, did not compel sale of defendant's machines but rather compelled *nondiscriminatory* lease or sale or license.[15] The illegality found in *International Salt* was a tying clause employed by defendant in leasing patented salt dispensing machines which required the lessee to purchase all salt for use in the machines from International. Thus the requirement that International distribute its machines on a nondiscriminatory basis so as not to give more favorable terms to customers who purchased all or substantially all of their salt from International was closely related to the principal illegal activity adjudicated in the case. The decreeing of compulsory sales by ICI and Glaxo to all applicants cannot logically or factually be related to the continuance of the illegality found in this case—the restraint of their vendees' freedom to resell in bulk.

In *Besser* the defendants had eliminated competition in the concrete block industry through outright purchase of competitors and strict patent-licensing arrangements.[16] After first sustaining the trial court's conclusion that defendants had conspired to monopolize and had monopolized and attempted to monopolize interstate commerce in concrete block making machinery in violation of sections one and two of the Sherman Act, the Court ratified the de-

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[14] 332 U.S. at 401.

[15] 332 U.S. at 398 n. 7.

[16] 343 U.S. at 447.

cree which ordered defendants to offer for sale the machines which they had previously only leased. The Court stated that "[c]ompulsory licensing and sale of patented devices are recognized remedies. They would seem particularly appropriate where, as here, a penchant for abuse of patent rights is demonstrated." [17] In the present case there was no showing that ICI or Glaxo had a "penchant for abuse of patent rights" nor were they convicted, as was Besser, of using their patent rights to monopolize an industry.[18] The direction to offer to sell as well as lease patented machinery in *Besser* went directly to the mechanics used to monopolize. The restraint on alienation in the present case, although declared a *per se* violation of section one of the Sherman Act, has not been shown to have had the effect of monopolizing the market nor have ICI's and Glaxo's exclusive distributorship arrangements, which the compulsory sale provision would defeat, been shown to be illegal restraints on competition. The circumstances of the cases and the relationship of the violations to conduct sought to be restrained differ so greatly that *Besser* cannot be held controlling here.

The circumstances and holding in *United Shoe* are quite similar to *Besser*. The court decreed compulsory sales of patented machines after finding that United Shoe's lease-only policy of distributing its machines was the base of its illegal monopolization of the shoe machine industry.[19] We are not here dealing with a lease versus sale situation nor have ICI's and

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[17] 343 U.S. at 449.

[18] "[This] case has not been characterized as a patent misuse, patent licensing, or know how licensing problem." *Glaxo*, 302 F. Supp. at 9 n. 40.

[19] 110 F. Supp. at 344.

Glaxo's exclusive distributorship methods of marketing their products been found to be the basis for an acquisition of illegal monopoly power.

In fashioning a remedy in an antitrust case the Court is not "limited to prohibition of the proven means by which the evil was accomplished but may range broadly through practices connected with acts actually found to be illegal."[20] But the principal function of an antitrust injunction is to prevent future violations.[21] In determining the scope of relief the "essential consideration is that the remedy shall be as effective and fair as possible in preventing continued or future violations of the Antitrust Act in the light of the facts of the particular case."[22] Thus while the cases cited by plaintiff and discussed above are authority for the proposition that the Court has the power to grant relief which goes beyond prohibition of the specific conduct found illegal, it is clear that that power is to be exercised only in appropriate circumstances. The circumstances under which otherwise legitimate conduct will be enjoined are where that conduct is so inextricably intertwined with the illegal conduct that effective relief cannot be afforded without its elimination or where the legitimate activity would be a cover for pursuing the forbidden activity.[23]

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[20] *United States* v. *United States Gypsum Co.*, 340 U. S. 76, 88-89 (1950).

[21] *United States* v. *Oregon State Medical Society*, 343 U. S. 326, 333 (1952).

[22] *United States* v. *National Lead Co.*, 332 U. S. 319, 335 (1947).

[23] Mr. Justice Frankfurter defined the circumstances where such relief is appropriate.

[Footnote continued on page 67]

In the present case there has been no determination that the exclusive distributorship arrangements between ICI and Glaxo and their United States distributors were violations of the antitrust laws. Nor have any instances where such agreements were adjudged illegal been brought to the attention of the Court. The compulsory sales and patent-licensing provisions sought by the Government would, of course, destroy these business arrangements. Furthermore, this case was presented on motion for summary judgment and the restraint on alienation was found to be a *per se* violation of the antitrust laws—that is, the conduct was declared illegal as a matter of law without requiring the Government to show the effects of the conduct on the market. The Government, in its briefs and affidavits filed in support of its proposed judgment, has attempted to show that market conditions necessitate the broad scale relief requested. The evidence offered, however, shows only that there are other drug companies [24] in the United States that

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[23] [Continued]

> Reflecting the dictates of fairness, equity does not put under ban that which is intrinsically legitimate unless for all practical purposes it is tied with the illegitimate or the circumstances of the case make it reasonable to assume that pursuit of what is legitimate would be a cover for doing what is forbidden.

International Salt Co. v. *United States*, 332 U. S. 392, 403 (1947) (Frankfurter, J., dissenting).

[24] The Government's affidavits concerned generic and private label drug houses. These firms because of their lower advertising and operating expenses offer drugs at lower prices than do the larger concerns which market their product under their own tradenames. The independent companies must be able to offer significant price reductions to compete effectively with the more highly promoted tradenamed drugs.

would endeavor to enter the griseofulvin market if they could purchase bulk supplies from Glaxo or ICI on the same terms as their present vendees. The evidence did not show that a current monopoly condition exists as a result of the bulk resale restriction[25] nor did it show that the exclusive distributorship arrangements are covers for the continuation of bulk resale restrictions.[26] Therefore, the Court concludes that to decree compulsory sales would be inappropriate in the circumstances of this case.[27]

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[25] Defendants contend that the restrictive covenants were never effective and did not restrict competition. They assert further that the griseofulvin market has not been monopolized, pointing out that there are at least three firms competing for shares of a declining market.

[26] Government affidavits do show that neither Schering nor Johnson and Johnson resell griseofulvin in bulk and that Ayerst sells only relatively small amounts in bulk. However, since the primary business of these companies is the manufacture and distribution of dosage form pharmaceuticals the paucity of bulk sales of griseofulvin is equally compatible with the exercise of independent business judgment as with the hypothesis of a continuing conspiracy to prevent bulk sales.

[27] The present case is factually similar to the case of *United States* v. *Arnold, Schwinn & Co.*, 388 U.S. 365 (1967). The holding that the bulk resale restriction was a *per se* violation of the Sherman Act followed the *Schwinn* holding. *Glaxo*, 302 F. Supp. at 4-11. On remand from the Supreme Court, the District Court entered a decree in *Schwinn* which prohibited further restraints on *Schwinn's* vendees' freedom to resell purchased products. *United States* v. *Arnold, Schwinn & Co.*, 291 F. Supp. 564, 567 (N.D. Ill. 1968). The decree did not require Schwinn to sell to all applicants; in fact, paragraph VI of the decree specifically allows Schwinn to choose its distributors and retailers for various geographic areas. 291 F. Supp. at 565. See also the consent decree entered in

The Government contends that the decree of compulsory patent licensing which it requests stands on a separate and equal footing with the request for compulsory sales. The elements discussed above concerning the appropriateness of extraordinary relief in the context of compulsory sales relief are equally applicable in the case of compulsory licensing. Plaintiff has not shown in this record that defendants' current licensing practices are related to the adjudged antitrust violation nor are they methods to circumvent the prohibition of restraints on resale. The authorities upon which plaintiff relies [28] for its proposed remedy are cases where the defendants have misused their patent rights in contravention of the antitrust laws. Here, there has been no showing that either Glaxo or ICI has abused its patent rights [29] and, therefore, they are entitled to exercise the limited monopoly rights granted by law to patent holders.

United States v. *Farbenfabriken Bayer A. G.* (D. D.C.), which also concerned resale restrictions in the chemical industry.

[28] *E.g.*, *Besser Mfg. Co.* v. *United States*, 343 U.S. 444 (1952); *United States* v. *United States Gypsum Co.*, 340 U.S. 76 (1950); *United States* v. *National Lead Co.*, 332 U.S. 319 (1947); *Hartford Empire Co.* v. *United States*, 323 U.S. 386 (1945).

[29] Note 18, *supra*.

APPENDIX F

[Caption Omitted]

FINAL JUDGMENT

Plaintiff, United States of America, having filed its complaint herein on March 4, 1968, and the defendant Imperial Chemical Industries having consented to the personal jurisdiction of the Court, and defendant Glaxo Group Limited's two challenges to jurisdiction having been denied by orders of this Court dated April 30, 1968, and November 20, 1969, and the Court having granted plaintiff's several motions for summary judgment respecting the illegality of the challenged combination and agreements, and the only remaining matter for this Court being the form of relief, and the Court having considered the matter on the basis of the briefs and affidavits of the parties and oral argument and being duly advised, it is hereby

ORDERED, ADJUDGED, AND DECREED as follows:

I.

As used in this Final Judgment:

(A) "Glaxo" means defendant Glaxo Group Limited;

(B) "ICI" means defendant Imperial Chemical Industries Limited;

(C) "Drug" shall be defined as it is in 21 U.S.C. § 321(g)(i); and such term shall also include any form of such drug (bulk, dosage form or otherwise);

(D) "United States sale" means any sale of any drug, made in the United States or made abroad in contemplation of exportation to the United States;

(E) "Person" means any individual, corporation, association, partnership, or other legal entity;

II.

(A) The Court has jurisdiction of the subject matter of this action and of the parties hereto.

(B) The defendants have, in violation of Section of the Sherman Act (15 U.S.C. § 1), entered into contract with their respective purchasers in the United States restricting their freedom to resell the drug griseofulvin in bulk form; and have, in violation of said Section, agree with each other that defendant ICI should so restrict its purchaser in the United States.

(C) Those portions of the complaint involving plaintiff's challenge to the validity of defendant ICI's Pat. No. 2,900,304 are dismissed on the ground that plaintiff lacks standing to make such challenge on the basis of the facts alleged by plaintiff.

(D) Plaintiff's motion to amend its complaint challenge the validity of defendant Glaxo's U. S. Pat. No. 3,330,727 is denied on the ground that plaintiff lacks standing to make such challenge on the basis of the facts alleged by plaintiff.

III.

The provisions of this Final Judgment applicable to any defendant shall apply also to each of its subsidiaries, successors and assignees, and to their directors, officers, agents and employees, and to all other persons in active concert or participation with such defendant who receive actual notice of this Final Judgment by personal service or otherwise.

IV.

Each defendant is enjoined and restrained:

(A) From entering into, adhering to, maintaining or claiming any rights under any agreement or un-

derstanding pursuant to which any party thereto undertakes not to resell, or is limited, prohibited or restrained in the manner or form in which, or the persons to whom, it resells, any drugs such party purchases in any United States sale.

(B) From refusing to sell any drug in a United States sale to a purchaser because of the purchaser's refusal to enter into a contract, agreement or understanding prohibited by Section IV(A).

(C) From entering into, adhering to, maintaining or claiming any rights under any agreement or understanding with any other persons providing that any party thereto is to enter into, adhere to, maintain or claim any rights under any agreement or understanding of the type prohibited by subsection (A) above.

(D) From entering into, adhering to, maintaining or claiming any rights under any agreement or understanding with any of its licensees under any United States patent relating to drugs, which prevents, restrains or limits any party thereto from selling any drug in bulk form, or otherwise prevents, restrains or limits any party thereto in its free choice of customers or persons with whom it chooses to deal.

(E) From entering into, adhering to, maintaining or claiming any rights under any agreement or understanding with any other persons providing that any party thereto is to enter into, adhere to, maintain or claim any rights under any agreement or understanding of the type prohibited by subsection (D) above.

V.

For the purpose of securing compliance with this Final Judgment and for no other purpose, and subject to any legally recognized privilege:

(A) A duly authorized representative of the Department of Justice shall, upon written request of the Attorney General or the Assistant Attorney General in charge of the Antitrust Division, and on reasonable notice to either defendant, made to its principal office, be permitted (1) access in the United States during regular office hours of defendant, to all books, ledgers, accounts, correspondence, memoranda and other records and documents in the possession or under the control of such defendant relating to any of the subject matter contained in this Final Judgment and (2) subject to the reasonable convenience of such defendant, and without restraint or interference from it, to interview in the United States officers or employees of such defendant, who may have counsel present, regarding such matters, provided that no defendant shall be obligated to bring to the United States any records or documents or to bring to the United States for the purpose of interview any officer or employee except on order of this Court specifically so providing.

(B) Upon written request of the Attorney General, or the Assistant Attorney General in charge of the Antitrust Division, defendants shall submit such reports in writing with respect to the matters contained in this Final Judgment as may from time to time be requested.

No information obtained by the means provided in this Section V shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of the Executive Branch of the United States Government, except in the course of legal proceedings to which the United States is a party for the purpose of securing compliance with this Final Judgment or as otherwise required by law.

VI.

Jurisdiction is retained for the purpose of enabling any of the parties to this Final Judgment to apply to this Court at any time for such further orders and directions as may be necessary or appropriate for the construction or modification of any of the provisions thereof, for the enforcement of compliance therewith, and for the punishment of violations thereof.

VII.

This Final Judgment shall terminate ten (10) years after the date of its entry and shall thereafter have no force or effect.

VIII.

Defendants shall pay all taxable costs herein.

/s/ Oliver Gasch
Judge

Date: June 17, 1971

APPENDIX G

[Caption Omitted]

DECLARATION

In response to defendants' request to clarify the Final Judgment entered in this case, the Court makes the following declaration:

Article IV(D) of the Final Judgment which enjoins the defendants:

> (D) From entering into, adhering to maintaining or claiming any rights under any agreement or understanding with any of its licensees under any United States patent relating to drugs, which prevents, restrains or limits any party thereto from selling any drug in bulk form, or otherwise prevents, restrains or limits any party thereto in its free choice of customers or persons with whom it chooses to deal,

is not to be construed to prevent defendants from granting exclusive licenses or exclusive distributorships or to grant licenses limited to particular fields of use under any United States patent relating to drugs.

/s/ Oliver Gasch
Judge

Date: Aug. 12, 1971

APPENDIX H

[Caption Omitted; Filed August 17, 1971]

NOTICE OF APPEAL TO THE SUPREME COURT OF THE UNITED STATES BY THE UNITED STATES OF AMERICA

Notice is hereby given that the United States of America, plaintiff herein, appeals to the Supreme Court of the United States from the judgment entered June 17, 1971. Appeal is taken pursuant to the Expediting Act of February 11, 1903, 15 U.S.C. 29.

HARRY FIRST
Attorney,
Department of Justice.

APPENDIX I

[Caption Omitted; Filed September 21, 1971]

NOTICE OF APPEAL TO THE SUPREME COURT OF THE UNITED STATES BY THE UNITED STATES OF AMERICA

Notice is hereby given that the United States of America, plaintiff herein, appeals to the Supreme Court of the United States from the judgment entered June 17, 1971 and modified or interpreted by the declaration entered August 12, 1971. Appeal is taken pursuant to the Expediting Act of February 11, 1903, 15 U.S.C. 29.

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Department of Justice.

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